



Minnesota Energy Resources Corporation
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January 8, 2018

VIA ELECTRONIC FILING

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 Seventh Place East, Suite 350
St. Paul, MN 55101

Re: In the Matter of the Petition of Minnesota Energy Resources Corporation-Consolidated for Approval of a Change in Demand Entitlement, Docket No. G011/M-17-587

New ANR Storage Contract Effective April 1, 2018

Dear Mr. Wolf:

Minnesota Energy Resources Corporation (“MERC” or the “Company”) submits this filing in compliance with Minn. R. 7825.2910¹ and the Minnesota Public Utilities Commission’s (“Commission”) December 5, 2017, Order Setting New Base Cost of Gas for Interim Rate Period in Docket Nos. G011/MR-17-564 and G011/GR-17-563. Order Point 6 of the Commission’s December 5, 2017, Order required that the

¹ Minn. R. 7825.2910, Subp. 2, requires that Gas utilities shall file for a change in demand to increase or decrease demand, to redistribute demand percentages among classes, or to exchange one form of demand for another. A filing must contain:

- A. a description of the factors contributing to the need for changing demand;
- B. the utility's design-day demand by customer class and the change in design-day demand, if any, necessitating the demand revision;
- C. a summary of the levels of winter versus summer usage for all customer classes; and
- D. a description of design-day gas supply from all sources under the new level, allocation, or form of demand.

Effective April 1, 2018, MERC has contracted for a new ANR storage contract to replace the AECO/Niska Storage contract that expires April 30, 2018. As discussed in this filing, because the change will be effective April 1, 2018, there will be no impact to MERC’s design-day demand and no revised design-day demand by customer class is being submitted with this filing. Additionally, the ANR Storage contract will not affect usage during the remainder of the current demand period because MERC will only inject into storage during the summer months and not use it to meet customer load.

Company provide detailed information on the status of the AECO storage contract replacement as a supplement in this docket and Order Point 7 requires that MERC also provide in this docket, an updated explanation of its plan to use system baseload and spot market quantities to cover the quantities from the AECO storage contract that MERC released for the remaining term of the contract.²

Through this filing, MERC requests Commission approval a proposed replacement storage contract with ANR Pipeline Storage (the “ANR Storage Contract”) to be recovered in the Purchased Gas Adjustment (“PGA”) beginning April 1, 2018.

Replacement Storage Contract Effective April 1, 2018

MERC has entered into a four-year contract for natural gas storage with ANR Pipeline Storage effective April 1, 2018, to replace the Company’s previous contract for natural gas storage with Niska Gas Storage. Through this filing, MERC requests Commission approval for the proposed change in contract demand entitlements and to begin recovering the cost of the proposed ANR Storage Contract through the PGA effective April 1, 2018. Because the change is effective April 1, 2018, it does not affect MERC’s design day demand entitlements for 2017-2018. MERC will provide an updated design day analysis in its 2018-2019 Demand Entitlement filings to be submitted in August and November 2018.

MERC had contracted for natural gas storage from Niska Gas Storage at the AECO Hub in Alberta for the last several years under a contract that terminates April 30, 2018 (the “Niska Storage Contract”). Since the Company does not hold pipeline transport to move this gas to its customers, the Niska Storage Contract has provided the financial benefits of gas storage but not the operational benefits. To deliver the supply from the Niska Storage Contract to MERC’s Consolidated customers, MERC historically entered into an AECO/Emerson swap.³ Under the swap, MERC sold gas at the storage point (AECO) to a supplier and purchased an equivalent volume at Emerson/Spruce to be transported to MERC’s customers.

² MERC also notes that Order Point 5 of the Commission’s December 5 Order required MERC to reconcile its demand costs in its November update in Docket Nos. G011/M-17-587 and G011/M-17-588 with the October 1 Purchased Gas Adjustment filed in Docket No. G011/AA-17-703. MERC submitted the required reconciliation with its November 1, 2017 Demand Entitlement filing in Docket No. G011/M-17-588.

³ The current AECO/Emerson swap term was November 2016 – April 30, 2017 and therefore that agreement is not affected by the Niska Storage Contract assignment. MERC does not plan to enter into a new AECO/Emerson swap agreement for the November 2017-April 2018 period and will address that change in its August and November Demand Entitlement filings.

In addition to the operational challenges associated with the Niska Storage Contract, Alberta experienced a lack of natural gas pipeline capacity in August – October 2016, which resulted in MERC having difficulty filling its storage account. As a result of the cumulative effect of these issues, MERC sought parties to assign the Niska Storage Contract for the last year of the term from May 1, 2017 – April 30, 2018.

MERC released the Niska Storage Contract as detailed in the Company's April 20, 2017, update filing in Docket No. G011/M-16-651. Through this filing, MERC is providing an update regarding its plans to replace the Niska Storage Contract and a summary of the financial impacts to demand costs as a result of the executed ANR Storage Contract.

Upon release of the Niska contract, the Company explored various sources and alternatives to provide a storage solution for MERC Consolidated customers. This evaluation yielded two viable options; physical storage in Michigan that could be back-hauled on Great Lakes or synthetic storage in Michigan or at Emerson that would act as storage. Synthetic storage in this case was a winter call option that was priced at the previous summer's indices; which provides a product that operationally and financially looks like physical storage. Ultimately, the Company selected a physical storage option with ANR Pipeline Company beginning April 1, 2018.

The ANR Storage Contract will have an annual cost of \$531,032 compared to the previous Niska Storage Contract annual cost of \$489,996. The newly contracted service will directly bring gas to MERC Consolidated customers via Great Lakes and Viking, so offers significant operational benefits over the prior Niska arrangement.

The cost impact of the change to the MERC Consolidated demand entitlements will be an increase of \$0.00374/therm beginning April 1, 2018, as compared to MERC's November 1, 2017 Demand Entitlement filing reflecting the released Niska Storage Contract. Updated Attachment 4 (page 1 and 3) and Attachment 8 are included with this filing.

2017-2018 Coverage of Storage through Baseload and Spot Market Purchases

As discussed above, MERC released the Niska Storage Contract effective May 1, 2017 and has entered into the ANR Storage Contract effective April 1, 2018. For the 2017-2018 gas year, MERC replaced the AECO/Emerson swap with a combination of baseload supplies and physical calls. There is no reduction in operational flexibility or reliability as a result of this replacement, as the lack of MERC contracted pipeline capacity connecting Niska Storage to load removed the typical flexibility

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associated with Company held physical storage. The baseload and physical call purchases that replace the AECO/Emerson swap were transacted at Emerson and ensure that MERC Consolidated customers receive the same level of reliability as in the past.

Please contact me at (651) 322-8965 if you have any questions regarding the information in this filing. Thank you for your attention to this matter.

Sincerely yours,

/s/ Amber S. Lee

Amber S. Lee
Regulatory and Legislative Affairs Manager
Minnesota Energy Resources Corporation

Enclosure

cc: Service List

MINNESOTA ENERGY RESOURCES - CONSOLIDATED

RATE IMPACT OF THE PROPOSED DEMAND CHANGE
NOVEMBER 1, 2017

All costs in \$/Dth	Base Cost of Gas G011/MR15-748 Jul 1, 2017	Demand Charge Oct 1, 2016	Demand Charge Demand Filing Nov 1, 2016	Most Recent PGA Jul 1, 2017	Proposed Effective Nov 1, 2017	Result of Proposed Change				
						Change from Last Rate Case	Change from Nov 1, 2016 Demand Filing	Change from Last PGA %	Change from Last PGA \$	
1) General Service Residential Avg. Annual Use:						86	Dth			
Commodity Cost	\$2.6791	\$3.8521	\$3.8521	\$2.6791	\$2.9462	9.97%	-23.52%	9.97%	\$0.2671	
Demand Cost	\$0.7996	\$0.7996	\$0.7996	\$0.7996	\$0.7345	-8.14%	-8.14%	-8.14%	(\$0.0651)	
Commodity Margin	\$2.4116	\$2.3980	\$2.3980	\$2.4116	\$2.4116	0.00%	0.57%	0.00%	\$0.0000	
Total Cost of Gas	\$5.8903	\$7.0497	\$7.0497	\$5.8903	\$6.0923	3.43%	-13.58%	3.43%	\$0.2020	
Avg Annual Cost	\$506.57	\$606.27	\$606.27	\$506.57	\$523.94	3.43%	-13.58%	3.43%	\$17.37	
Effect of proposed commodity change on average annual bills:									\$22.97	
Effect of proposed demand change on average annual bills:									(\$5.60)	
2) Large General Service: Avg. Annual Use:						623	Dth			
Commodity Cost	\$2.6791	\$3.8521	\$3.8521	\$2.6791	\$2.9462	9.97%	-23.52%	9.97%	\$0.2671	
Demand Cost	\$0.7996	\$0.7996	\$0.7996	\$0.7996	\$0.7345	-8.14%	-8.14%	-8.14%	(\$0.0651)	
Commodity Margin	\$1.6885	\$1.8232	\$1.8232	\$1.6885	\$1.6885	0.00%	-7.39%	0.00%	\$0.0000	
Total Cost of Gas	\$5.1672	\$6.4749	\$6.4749	\$5.1672	\$5.3692	3.91%	-17.08%	3.91%	\$0.2020	
Avg Annual Cost	\$3,219.17	\$4,033.86	\$4,033.86	\$3,219.17	\$3,345.00	3.91%	-17.08%	3.91%	\$125.83	
Effect of proposed commodity change on average annual bills:									\$166.39	
Effect of proposed demand change on average annual bills:									(\$40.56)	
3) SV Interruptible Service: Avg. Annual Use:						7,637	Dth			
Commodity Cost	\$2.6791	\$3.8521	\$3.8521	\$2.6791	\$2.9462	9.97%	-23.52%	9.97%	\$0.2671	
Commodity Margin	\$0.9740	\$0.9336	\$0.9336	\$0.9740	\$0.9740	0.00%	4.33%	0.00%	\$0.0000	
Total Cost of Gas	\$3.6531	\$4.7857	\$4.7857	\$3.6531	\$3.9202	7.31%	-18.09%	7.31%	\$0.2671	
Avg Annual Cost	\$27,898.72	\$36,548.39	\$36,548.39	\$27,898.72	\$29,938.38	7.31%	-18.09%	7.31%	\$2,039.65	
Effect of proposed commodity change on average annual bills:									\$2,039.65	
4) LV Interruptible Service: Avg. Annual Use:						71,526	Dth			
Commodity Cost	\$2.6791	\$3.8521	\$3.8521	\$2.6791	\$2.9462	9.97%	-23.52%	9.97%	\$0.2671	
Commodity Margin	\$0.5329	\$0.5007	\$0.5007	\$0.5329	\$0.5329	0.00%	6.43%	0.00%	\$0.0000	
Total Cost of Gas	\$3.2120	\$4.3528	\$4.3528	\$3.2120	\$3.4791	8.31%	-20.07%	8.31%	\$0.2671	
Avg Annual Cost	\$229,741.51	\$311,338.37	\$311,338.37	\$229,741.51	\$248,844.33	8.31%	-20.07%	8.31%	\$19,102.82	
Effect of proposed commodity change on average annual bills:									\$19,102.82	

Note: Average Annual Average based on NNG Annual Automatic Adjustment Report in Docket No. E,G999/AA-17-XXX

MINNESOTA ENERGY RESOURCES - CONSOLIDATED
RATE IMPACT OF THE PROPOSED DEMAND CHANGE

PRESENT AVERAGE COST OF GAS COMMODITY

NOVEMBER 1, 2017

WACOG	Rate	Annual Dth	Call Option Premium	Physical Forward Start Premium	Balancing Service	Total Annual Cost	System Cost/therm	Storage Comm Rate	Total Comm Rate	REFERENCE	Effective
VGT											
GAS COST	\$2.70290										
FUEL 1.49%	\$0.04088									Sub 16th Revised Sheet No. 5B Apr. 1, 2006	
COMMODITY TRANSPORTATION	\$0.01160									Sub 16th Revised Sheet No. 5B Apr. 1, 2006	
GRI	\$0.00000									Sub 16th Revised Sheet No. 5B Apr. 1, 2006	
ACA	\$0.00130									Sub 16th Revised Sheet No. 5B Apr. 1, 2006	
VGT Commodity	\$2.75668	2,145,731	\$57,463	\$52,700	\$89,580	\$6,114,838	\$0.10754			VGT Commodity	
GLGT											
GAS COST	\$2.70290										
FUEL 1.383%	\$0.03789									5 Revised Sheet 4 Contract	Jun 1, 1997
COMMODITY TRANSPORTATION	\$0.00394									18th Revised Sheet No. 7	Oct. 1, 2005
GRI	\$0.00000										
ACA	\$0.00130										
GLGT Commodity	\$2.74603	2,216,718	\$59,364	\$18,785	\$0	\$6,165,323	\$0.10843			GLGT Commodity	
CENTRA											
CENTRA TRANSMISSION (\$Cdn/103M3)	1.062									Sheet 1 (N.E.B.)	
Conversion	\$0.02247										
Abandonment Toll	\$0.27803									N.E.B. MO-078-2014	Jan. 1, 2015
GAS COSTS	\$2.70290										
CUSTOMS FEE	\$0.00030										
CENTRA Commodity	\$3.00371	1,323,492	\$35,444	\$0	\$54,000	\$4,064,826	\$0.07149			Centra Commodity	
Consolidated WACOG w/Premium & Balancing		5,685,941	\$152,271	\$71,485	\$143,580	\$16,344,987	\$0.28746	\$0.00716			
Total Annual Sales in therms		56,859,413									
									\$0.29462	Total Consolidated WACOG-\$/therm	

Balancing Service						
Pipeline	Description	Season	Monthly Entitlement (Dth)	Months	Rate (\$/Dth)	Contract Costs
VGT	Balancing Agreement	Annual	7,465	12	\$1.0000	\$89,580
GLGT	---		0	0	\$0.0000	\$0
Centra	Union Balancing	Annual	10,000	12	\$0.4500	\$54,000

Storage Service							
	Season	Monthly Entitlement (Dth)	Months	Rate (\$/Dth)	Contract Costs	Annual Sales (therms)	Rate (\$/therm)
Niska Storage (AECO)	Annual	947,820	6	\$0.0431	\$244,998	56,859,413	\$0.00431
Niska Storage Assignment	Annual	947,820	6	\$(0.0260)	-\$147,798	56,859,413	-\$0.00260
ANR Pipeline Storage	Annual	756,888	7	\$0.0585	\$309,772	56,859,413	\$0.00545
					\$406,972	56,859,413	\$0.00716

Total Commodity Cost:

\$0.29462

* Per Docket No. G-007/M-07-1402-05 dated August 6th, 2014, storage demand charges will be allocated through the commodity charge effective 11/01/2014.

MINNESOTA ENERGY RESOURCES - CONSOLIDATED

Change in Costs due to November,1 2016 Change in Entitlement Levels and Related Demand Costs

	2016/17 Entitlements	2017/18 Entitlements	Entitlement Change	2017/18 Rate	Months	2016/17 Total Annual Cost	2017/18 Total Annual Cost	Total Annual Cost Change
Costs Assigned in Demand Charge								
<u>Viking Pipeline</u>								
FT-A ZONE 1 - 1AF0012	14,493	14,493	0	\$ 4.3706	12	\$760,117	\$760,117	\$0
FT-A ZONE 1 - 1AF0012	1,098	1,098	0	\$ 4.3706	3	\$14,397	\$14,397	\$0
FT-A ZONE 1 - 1Afx	0	1,500	1,500	\$ 4.3706	3	\$0	\$19,668	\$19,668
<u>GLGTPipeline</u>								
FT Western ZoneFT0016	10,130	10,130	0	\$ 3.8490	12	\$467,884	\$467,884	\$0
FT Western ZoneFT18528 (12)	12,600	12,600	0	\$ 3.8490	12	\$581,969	\$581,969	\$0
FT Western ZoneFT18528 (5)	3,728	3,728	0	\$ 3.8490	5	\$71,745	\$71,745	\$0
FT Western Zone (5)xxxx (Nov-Mar)	3,350	4,900	1,550	\$ 3.8490	5	\$64,471	\$94,301	\$29,830
<u>CENTRA Pipeline</u>								
CENTRA TRANSMISSION	9,100	9,500	400	\$ 11.1338	12	\$1,269,253	\$1,269,253	\$0
CENTRA MINNESOTA PIPELINES	9,100	9,500	400	\$ 3.2990	12	\$376,086	\$376,086	\$0
Total Costs Assigned to Demand Charge						\$3,605,922	\$3,655,420	\$49,498
Costs Assigned in Commodity Charge								
<u>Storage Service</u>								
Niska Storage (AECO)	947,820	947,820	0	\$ 0.0431	6	\$443,205	\$244,998	-\$198,207
Niska Storage Assignment	947,820	947,820	0	\$ (0.0260)	6	\$0	(\$147,798)	-\$147,798
ANR Pipeline Storage	0	756,888	756,888	\$ 0.0585	7	\$0	\$309,772	\$309,772
<u>Balancing</u>								
VGT Balancing Agreement	7,465	7,465	0	\$ 1.0000	12	\$89,580	\$89,580	\$0
Union Balancing	4,453	10,000	5,547	\$ 0.4500	12	\$54,000	\$54,000	\$0
Physical Forward Start Premium						\$52,096	\$71,485	\$19,389
Call Options Premium						\$229,055	\$152,271	-\$76,784
Total Costs Assigned to Commodity Charge						\$867,936	\$774,308	-\$93,628

In the Matter of the Petition of Minnesota
Energy Resources Corporation for
Approval of a Change in Demand
Entitlement for its Consolidated System

Docket No. G011/M-17-587

CERTIFICATE OF SERVICE

I, Kristin M. Stastny, hereby certify that on the 8th day of January, 2018, on behalf of Minnesota Energy Resources Corporation (MERC) I electronically filed a true and correct copy of the enclosed Letter on www.edockets.state.mn.us. Said documents were also served via U.S. mail and electronic service as designated on the attached service list.

Dated this 8th day of January, 2018.

/s/ Kristin M. Stastny
Kristin M. Stastny

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