85 7TH PLACE EAST, SUITE 500
SAINT PAUL, MINNESOTA 55101-2198
MN.GOV/COMMERCE
651.539.1500 FAX: 651.539.1547
AN EQUAL OPPORTUNITY EMPLOYER

July 31, 2014 **PUBLIC DOCUMENT**

Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **PUBLIC Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. PL6580/M-14-578

Dear Dr. Haar:

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

> A *Petition* by Greater Minnesota Transmission, LLC (GMT or the Company) for Approval by the Minnesota Public Utilities Commission (Commission) of a Firm Gas Transportation Agreement (Agreement) with West Central Ag Services (West Central).

The filing was submitted on July 2, 2014. The petitioner is:

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

The Department recommends that the Commission **approve** the Agreement as filed.

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

Sincerely,

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

AJH/lt
Attachment

MINNESOTA DEPARTMENT OF COMMERCE

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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

DOCKET NO. PL6580/M-14-578

I. BACKGROUND

On July 2, 2014, Greater Minnesota Transmission, LLC (GMT or the Company) filed a *Petition* for a Firm Gas Transportation Agreement (Agreement) with West Central Ag Services (West Central) with the Minnesota Public Utilities Commission (Commission). The Agreement encompasses, and sets forth, the terms of service, including costs and cost recovery mechanisms, between GMT and West Central to provide natural gas service to West Central's operations near the community of Ulen, Minnesota. The planned project governed by the Agreement involves the construction of 10.5 miles of new transmission line from GMT's soon-to-be-constructed Hawley Town Border Station (TBS) to an agreed-upon interconnection with West Central's operations near Ulen, Minnesota.

GMT stated that approval of the project will decrease propane demand by West Central, which will free up propane supplies for others in the area. Specially, GMT stated that West Central anticipates that approval of the project will free up between **[TRADE SECRET DATA HAS BEEN EXCISED]** gallons of propane for use in the local market.

Under the terms of the Agreement, West Central will purchase its own natural gas and arrange transport to GMT's soon-to-be-constructed Hawley TBS with the Viking pipeline.[1] From the Hawley TBS, GMT would accept delivery of West Central's gas and transport the gas to the agreed-upon interconnection with West Central's facilities. The Agreement allows for the transport of up to **[TRADE SECRET DATA HAS BEEN EXCISED]** Dekatherms (Dth) per day at a minimum operating pressure of **[TRADE SECRET DATA HAS BEEN EXCISED]** pounds per square inch (psi) over a 15-year period.

[1] The Hawley TBS will be built as part of the recently approved Barnesville extension that will be constructed by GMT (Docket No. PL6580/M-14-386).

The cost recovery mechanism in the Agreement is set up in manner standard for an intrastate pipeline which, pursuant to Minnesota Statute § 216B.045, Subd. 4, requires Commission approval of a contract establishing the rates, terms, and conditions of service and facilities. The rate negotiated by GMT and West Central involves a monthly demand charge of **[TRADE SECRET DATA HAS BEEN EXCISED]** and a volumetric charge of **[TRADE SECRET DATA HAS BEEN EXCISED]**.

The Minnesota Department of Commerce, Division of Energy Resources (Department) provides its analysis of the *Petition* below.

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

The Department's analysis is divided into the following sections: 1) the statutory requirements of an intrastate natural gas pipeline; and 2) cost recovery associated with the Agreement.

A. REQUIREMENTS OF MINNESOTA STATUTES AND RULES

Minn. Stat. §216B.045, subd. 1 states:

> For the purposes of this section "intrastate pipeline" means a pipeline wholly within the state of Minnesota which transports or delivers natural gas received from another person at a point inside or at the border of the state, which is delivered at a point within the state to another, provided that all the natural gas is consumed within the state. An intrastate pipeline does not include a pipeline owned or operated by a public utility, unless a public utility files a petition requesting that a pipeline or a portion of a pipeline be classified as an intrastate pipeline and the commission approves the petition.

As an intrastate pipeline, GMT must comply with the provisions of Minn. Stat. §216B.045. The Department notes that GMT is not a public utility since it does not furnish retail natural gas service.[2] As such, the Company is not subject to the same Minnesota Rules as regulated distribution companies such as Xcel Energy or CenterPoint Energy. The Commission has not promulgated rules applicable to intrastate pipelines under Minnesota Statute § 216B.045; as such, there appear to be no Minnesota Rules that specifically apply to GMT's provision of intrastate wholesale transportation service.

[2] West Central is not considered a public utility.

Minnesota Statute §216B.045 requires that intrastate pipeline provide service under the following three conditions:

- Contract at rates that are just and reasonable and do not unreasonably discriminate among customers receiving like or contemporaneous services (Minnesota Statute §216B.045, subd. 2);
- Offer services by contact on an open access, nondiscriminatory basis (Minnesota Statute §216B.045, subd. 3); and
- Obtain Commission approval for each contract to be effective (Minnesota Statute §216B.045, subd. 4).

The Department separately discusses these statutory requirements below.

1. Contract at Reasonable Rates

The Agreement contains standard language and rate design. As noted in the filing, Minnesota Statute §216B.03 states:

> Rates shall not be unreasonably preferential, unreasonably prejudicial, or discriminatory, but shall be sufficient, equitable, and consistent in the application to a class of customers.

The Department notes that, under most circumstances, a reasonable rate could be defined as a being a rate based on a utility's cost of service. This reasonableness check is generally associated with the review of retail rate regulated utilities. In certain instances, however, a reasonable rate may be a rate that is negotiated as part of an arm's length transaction. GMT incorporated this latter argument in its filing. In simple terms, one could find the rate in this filing reasonable because all parties involved, through the negotiating process, have agreed to the set rate. The Department is generally agreeable to the Company's reasoning in this *Petition*, because the proposed cost-recovery mechanism is for the pipeline-related costs associated with this project, which is similar to other intrastate pipeline projects previously proposed by the Company and its affiliate.[3] Despite the negotiated rate, it is necessary to review the various assumptions made by GMT to determine whether or not they are reasonable. Although this project is not fully analogous to a retail utility project, the Department believes it is important, given the current volatility in the propane market, that the rate is fully reviewed and crafted in a way that provides reasonable benefit to West Central while still allowing GMT an opportunity to earn an acceptable return. These issues are discussed in greater detail in Section B below.

[3] Docket Nos. PL6580/M-06-1063; PL6580/M-13-91; PL6580/M-13-94; PL6580/M-14-386; and Docket No. G022/M-14-342.

2. Obligation to Offer Service

As previously noted, GMT is required to offer services by contract on an open access, non-discriminatory basis. GMT stated in the *Petition* that since it would willingly enter into negotiations with other similarly situated private entities to discuss similar cooperative agreements that would serve the public interest in other respective communities, there is no discriminatory element to the Agreement and GMT has complied with its statutory obligation to offer its terms on an open-access basis. In addition, the terms and conditions contained in the Agreement are substantially similar to those approved by the Commission in previous GMT and affiliate filings. Further, the Department notes that this project is near the City of Barnesville, which is within the project area of a recently approved Firm Transportation Agreement between GMT and Xcel Energy. Since the Company will offer access to the Hawley TBS, and construct transmission line to West Central's operations without the involvement of Xcel Energy, the Department concludes that the Company offers service on an open access, non-discriminatory basis.

Based on its analysis, the Department concludes that GMT is offering its services by contract on an open-access, non-discriminatory basis which appears unlikely to unreasonably discriminate among customers receiving like services.

3. Approval of the Agreement

GMT and West Central signed the Agreement on July 1, 2014. The Company formally submitted the Agreement to the Commission for approval on July 2, 2014. Subject to regulatory approval,[4] GMT will begin providing service beginning the later of (i) October 1, 2014 or (ii) the date when the Company has completed the construction of all necessary facilities to effectuate the transportation of gas. If the Company does not complete construction by October 1, 2014, the monthly demand charge will be reduced by 50 percent during the 12-month period following the commencement of service. Since the Agreement is subject to Commission approval, the Department concludes that the proposed effective date is not inconsistent with Minnesota Statutes.

B. COST RECOVERY

The Department's primary financial concern in a filing of this type is cost recovery. West Central has contracted with GMT to build an intrastate pipeline to provide natural gas service to its operations near Ulen, Minnesota. In the case of an intrastate pipeline, it is important that the cost recovery is crafted in a manner that allows the Company an opportunity to recover its cost, plus a reasonable return, while at the same time offering an acceptable rate to the customer. In addition, since GMT owns, and operates, several other intrastate pipeline projects, it is also necessary to verify whether construction of the project

[4] See Section 7.0 of the Agreement.

may have a negative impact on the Company's overall financial health and, potentially, the operation of other pipelines.

The cost recovery for the project, as proposed, is predicated on a 10 percent Rate of Return (ROR) and, as noted earlier, the cost recovery is made up of two components, a monthly demand, or fixed charge, and volumetric charges that vary with the amount of gas sold. The Department reviewed the financial assumptions, and calculations used by the Company, and the Department can confirm that if the project operates under the assumptions, and terms, in the Agreement, GMT will earn a 10 percent ROR (DOC Attachment 1).

Since the cost recovery proposal assumes a level of volumetric consumption, the Department reviewed three "worst case" scenarios assuming that no gas would be flowed by the project but otherwise using the same inputs used by the Company (DOC Attachment 2). The Department's analysis indicates that the project, even if West Central purchases zero gas, will maintain a positive, before tax, cash flow even at cost levels approaching 50 percent above (*i.e.,* 50 percent cost overrun) the costs assumed by GMT. These results suggest that the Agreement is likely to result in a positive cash flow and the financial strength of GMT, and its ability to serve other customers and projects, are unlikely to be negatively impacted. As such, the Department recommends that the Commission approve GMT's cost recovery proposal.

III. THE DOC'S RECOMMENDATIONS

Based on its review, the Department recommends that the Commission approve the Agreement as filed.

/lt

DOC Attachment 1
Docket No. PL6580/M-14-578
Revenue Requirements for GMT's West Central Projects (as filed)

West Central Ag Services
Revenue Requirements

	NPV @ 10.0%	Project Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	15 yr. Total
Rate Base Analysis																		
Net Utility Plant	$1,014,639	1,750,750	1,728,866	1,685,097	1,641,328	1,597,559	1,553,791	1,510,022	1,466,253	1,422,484	1,378,716	1,334,947	1,291,178	1,247,409	1,203,641	1,159,872	1,116,103	
Less Deferred Income Taxes		-	(8,754)	(26,261)	(43,769)	(61,276)	(78,784)	(96,291)	(113,799)	(131,306)	(148,814)	(166,321)	(183,829)	(201,336)	(218,844)	(236,351)	(253,859)	
		1,750,750	1,720,112	1,658,836	1,597,559	1,536,283	1,475,007	1,413,731	1,352,454	1,291,178	1,229,902	1,168,626	1,107,349	1,046,073	984,797	923,521	862,244	
Allowed Rate of Return		7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	
Required Operating Income	$ 866,159	$ 122,553	$ 120,408	$ 116,118	$ 111,829	$ 107,540	$ 103,250	$ 98,961	$ 94,672	$ 90,382	$ 86,093	$ 81,804	$ 77,514	$ 73,225	$ 68,936	$ 64,646	$ 60,357	$1,478,290
Operating Revenue	$1,877,158	$ -	$ 131,242	$ 262,483	$ 262,483	$ 262,483	$ 262,483	$ 262,483	$ 262,483	$ 262,483	$ 262,483	$ 262,483	$ 262,483	$ 262,483	$ 262,483	$ 262,483	$ 262,483	
Operating Expenses & Depreciation	1,538,443	-	117,884	200,287	202,747	205,269	207,853	210,503	213,218	216,001	218,854	221,778	224,775	227,848	230,997	234,224	237,533	$3,169,772
Net Operating Income Before Taxes	338,715	-	13,357.23	62,196	59,736	57,214	54,630	51,981	49,265	46,482	43,629	40,705	37,708	34,636	31,487	28,259	24,950	
Income (Benefit) Tax Expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net Operating Income	$ 338,715	$ -	$ 13,357	$ 62,196	$ 59,736	$ 57,214	$ 54,630	$ 51,981	$ 49,265	$ 46,482	$ 43,629	$ 40,705	$ 37,708	$ 34,636	$ 31,487	$ 28,259	$ 24,950	$ 636,234
Breakeven	$ (404,892)		$(107,051)	$ (53,923)	$ (52,093)	$ (50,325)	$ (48,621)	$ (46,980)	$ (45,407)	$ (43,900)	$ (42,464)	$ (41,099)	$ (39,807)	$ (38,590)	$ (37,449)	$ (36,388)	$ (35,407)	
				Average	$ (62,403)													

Prepared by the Minnesota Department of Commerce, Division of Energy Resources

DOC Attachment 2
Docket No. PL6580/M-14-578
Revenue Requirements for GMT's West Central Projects (30 percent contingency)

West Central Ag Services
Revenue Requirements

	NPV @ 10.0%	Project Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	15 yr. Total
Rate Base Analysis																		
Net Utility Plant	$1,145,472	1,976,500	1,951,794	1,902,381	1,852,969	1,803,556	1,754,144	1,704,731	1,655,319	1,605,906	1,556,494	1,507,081	1,457,669	1,408,256	1,358,844	1,309,431	1,260,019	
Less Deferred Income Taxes		-	(9,883)	(29,648)	(49,413)	(69,178)	(88,943)	(108,708)	(128,473)	(148,238)	(168,003)	(187,768)	(207,533)	(227,298)	(247,063)	(266,828)	(286,593)	
		1,976,500	1,941,911	1,872,734	1,803,556	1,734,379	1,665,201	1,596,024	1,526,846	1,457,669	1,388,491	1,319,314	1,250,136	1,180,959	1,111,781	1,042,604	973,426	
Allowed Rate of Return		7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	
Required Operating Income	$ 977,845	$ 138,355	$ 135,934	$ 131,091	$ 126,249	$ 121,407	$ 116,564	$ 111,722	$ 106,879	$ 102,037	$ 97,194	$ 92,352	$ 87,510	$ 82,667	$ 77,825	$ 72,982	$ 68,140	$1,668,907
Operating Revenue	$1,877,158	$ -	$ 131,242	$ 262,483	$ 262,483	$ 262,483	$ 262,483	$ 262,483	$ 262,483	$ 262,483	$ 262,483	$ 262,483	$ 262,483	$ 262,483	$ 262,483	$ 262,483	$ 262,483	
Operating Expenses & Depreciation	1,629,572	-	120,706	213,512	215,972	218,493	221,078	223,727	226,442	229,226	232,078	235,003	238,000	241,072	244,221	247,449	250,757	$3,357,736
Net Operating Income Before Taxes	247,585	-	10,535	48,971	46,511	43,990	41,405	38,756	36,041	33,258	30,405	27,481	24,483	21,411	18,262	15,034	11,726	
Income (Benefit) Tax Expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net Operating Income	$ 247,585	$ -	$ 10,535	$ 48,971	$ 46,511	$ 43,990	$ 41,405	$ 38,756	$ 36,041	$ 33,258	$ 30,405	$ 27,481	$ 24,483	$ 21,411	$ 18,262	$ 15,034	$ 11,726	$ 448,270
Breakeven	$ (591,905)		$(125,398)	$ (82,120)	$ (79,738)	$ (77,417)	$ (75,159)	$ (72,965)	$ (70,838)	$ (68,779)	$ (66,790)	$ (64,871)	$ (63,026)	$ (61,256)	$ (59,563)	$ (57,948)	$ (56,414)	
				Average	$ (87,966)													

DOC Attachment 2
Docket No. PL6580/M-14-578
Revenue Requirements for GMT's West Central Projects (50 percent contingency)

West Central Ag Services
Revenue Requirements

	NPV @ 10.0%	Project Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	15 yr. Total
Rate Base Analysis																		
Net Utility Plant	$1,319,915	2,277,500	2,249,031	2,192,094	2,135,156	2,078,219	2,021,281	1,964,344	1,907,406	1,850,469	1,793,531	1,736,594	1,679,656	1,622,719	1,565,781	1,508,844	1,451,906	
Less Deferred Income Taxes		-	(11,388)	(34,163)	(56,938)	(79,713)	(102,488)	(125,263)	(148,038)	(170,813)	(193,588)	(216,363)	(239,138)	(261,913)	(284,688)	(307,463)	(330,238)	
		2,277,500	2,237,644	2,157,931	2,078,219	1,998,506	1,918,794	1,839,081	1,759,369	1,679,656	1,599,944	1,520,231	1,440,519	1,360,806	1,281,094	1,201,381	1,121,669	
Allowed Rate of Return		7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	
Required Operating Income	$1,126,761	$ 159,425	$ 156,635	$ 151,055	$ 145,475	$ 139,895	$ 134,316	$ 128,736	$ 123,156	$ 117,576	$ 111,996	$ 106,416	$ 100,836	$ 95,256	$ 89,677	$ 84,097	$ 78,517	$1,923,064
Operating Revenue	$1,877,158	$ -	$ 131,242	$ 262,483	$ 262,483	$ 262,483	$ 262,483	$ 262,483	$ 262,483	$ 262,483	$ 262,483	$ 262,483	$ 262,483	$ 262,483	$ 262,483	$ 262,483	$ 262,483	
Operating Expenses & Depreciation	1,751,078	-	124,469	231,144	233,604	236,126	238,710	241,360	244,075	246,858	249,711	252,635	255,632	258,705	261,854	265,081	268,390	$3,608,355
Net Operating Income Before Taxes	126,080	-	6,773	31,339	28,879	26,357	23,773	21,124	18,408	15,625	12,772	9,848	6,851	3,779	630	(2,598)	(5,907)	
Income (Benefit) Tax Expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net Operating Income	$ 126,080	$ -	$ 6,773	$ 31,339	$ 28,879	$ 26,357	$ 23,773	$ 21,124	$ 18,408	$ 15,625	$ 12,772	$ 9,848	$ 6,851	$ 3,779	$ 630	$ (2,598)	$ (5,907)	$ 197,652
Breakeven	$ (841,256)		$(149,862)	$(119,716)	$(116,596)	$(113,538)	$(110,543)	$(107,612)	$(104,748)	$(101,951)	$ (99,224)	$ (96,568)	$ (93,986)	$ (91,478)	$ (89,047)	$ (86,695)	$ (84,423)	
				Average	$(122,051)													

Prepared by the Minnesota Department of Commerce, Division of Energy Resources

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
Public Comments

Docket No. **PL6580/M-14-578**

Dated this 31st day of July 2014

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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_14-578_M-14-578
Kristine	Anderson	kanderson@greatermngas.com	Greater Minnesota Gas, Inc.	202 S. Main Street Le Sueur, MN 56058	Electronic Service	Yes	OFF_SL_14-578_M-14-578
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_14-578_M-14-578
Burl W.	Haar	burl.haar@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_14-578_M-14-578
Nicolle	Kupser	nkupser@greatermngas.com	Greater Minnesota Gas, Inc.	202 South Main Street P.O. Box 68 Le Sueur, MN 56058	Electronic Service	Yes	OFF_SL_14-578_M-14-578
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_14-578_M-14-578
Greg	Palmer	gpalmer@greatermngas.com	Greater Minnesota Gas, Inc.	PO Box 68 202 South Main Street Le Sueur, MN 56058	Electronic Service	Yes	OFF_SL_14-578_M-14-578
Eric	Swanson	eswanson@winthrop.com	Winthrop Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_14-578_M-14-578