Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: August 6, 2015 .... * Agenda Item 5

Company: Great Plains Natural Gas Company (Great Plains)

Docket No. **G-004/M-14-563**
In the Matter of a Petition by Great Plains Natural Gas Company (Great Plains) for Approval of Changes in Contract Demand Entitlements for the 2014-2015 Heating Season Supply Plan effective November 1, 2014.

Issue: Should the Commission approve Great Plains proposed demand entitlement capacity (levels) and cost changes to meet its Design Day and Reserve Margin requirements as described in the listed docket, effective November 1, 2014?

Staff: Bob Brill 651-201-2242

Relevant Documents

G-004/M-14-563
Great Plains Initial Petition and Schedules .... July 2, 2014
Department of Commerce (Department) Comments .... September 2, 2014
Great Plains Reply Comments .... September 8, 2014
Great Plains Compliance Filing-Informational Update .... November 25, 2014
Department Reply Comments .... January 14, 2015
Great Plains Supplemental Reply Comments .... January 20, 2015

The attached materials are workpapers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless otherwise noted.

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Statement of the Issue

Should the Commission approve Great Plains proposed demand entitlement capacity (levels) and cost changes to meet its Design Day and Reserve Margin requirements as described in the listed docket, effective November 1, 2014?

Introduction

Great Plains has entered into various natural gas supply and interstate pipeline contracts to provide natural gas services to its customers. Great Plains annually reviews and updates these contracts to ensure continued system reliability of firm natural gas supply deliveries to its customers.

Great Plains annual demand entitlement[1] petition request Commission approval to recover certain cost and capacity changes in these interstate pipeline transportation entitlements, supplier reservation fees, and other demand-related contract costs and to implement the rate impact of these petitions through its Purchased Gas Adjustment (PGA)[2] charges.

In this petition, Great Plains continues its two PGA rate areas approach; South and North PGA areas. The Great Plains – South PGA area customers receive gas delivered through the Northern Natural Gas Company (NNG) pipeline. The Great Plains – North PGA area customers receive gas delivered through the Viking Gas Transmission Company (VGT) pipeline.

PUC staff reviewed Great Plains 2014-2015 Demand Entitlement petition, and the various rounds of *Comments* filed by the Department and Great Plains. The Department and Great Plains have resolved all of the issues raised by the Department. PUC staff generally agrees with the Department's September 2, 2014 and January 14, 2015 recommendations for these petitions, but provides additional discussion.

Minnesota Rules

Minnesota Rule, part 7825.2910, subpart 2[3] require gas utilities to make a filing whenever there is a change to its demand-related entitlement services provided by a supplier or transporter of natural gas.

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[1] D*emand entitlements* can be defined as reservation charges paid by the Local Distribution Company (LDC) to an interstate natural gas pipeline to reserve pipeline capacity used to store and transport the natural gas supply for delivery to its system and contract charges associated with the LDC procuring its gas supply; these costs are recovered through the LDC's PGA.

[2] The Purchased Gas Adjustment is a mechanism used by regulated utilities to recover its cost of energy. Minn. Rules 7825.2390 through 7825.2920 enable regulated gas and electric utilities to adjust rates on a monthly basis to reflect changes in its cost of energy delivered to customers based upon costs authorized by the Commission in the utility's most recent general rate case.

[3] 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.

Great Plains – Initial Filings

Great Plains Design Day (DD) Requirements

Great Plains calculated its 2014-2015 Design Day (DD) requirements at 31,124 Dth/day; see the Department discussion, Table 3, Column 2 (on p. 4 of the briefing papers).

Great Plains Demand Entitlement Contract Levels

To transport its DD requirements, Great Plains used a series of interstate pipeline contracts to meet its annual system transportation requirements for each PGA area, i.e. demand entitlements. The 2014-2015 transportation demand entitlement contract levels were modified from the previous year's levels (for 2013-2014), which resulted in 32,645 Dth/day of available interstate pipeline transportation capacity, an increase of 2,000 Dth/day; see the Department discussion, Table 4, Column 2 (on p. 4 of the briefing papers).

Great Plains Reserve Margin

The Reserve Margin is the difference between Great Plains transportation demand entitlements and DD requirements. Great Plains stated that its reserve margin in each PGA area is appropriate given the need to balance the uncertainty of DD conditions, customer demand during these peak conditions, and the need to protect against firm gas supply loss to maintain system reliability; for reserve margin calculations, see the Department discussion, Table 6, Column 4 (on p. 4 of the briefing papers).

Great Plains Demand Entitlement Contract Costs

In Docket No. 13-566, the Commission approved Great Plains 2013-2014 demand entitlement contract costs.[4] In this docket, Great Plains proposed to recover 2014-2015 demand entitlement costs with the following per customer impacts calculated from the June 2014 Purchased Gas Adjustment (PGA).

[4] Approved at the January 9, 2014 Commission Agenda meeting, these factors were effective at November 1, 2013.

Table 1 – Estimated Average Annual Impact on Residential customers of increased costs – South PGA

PGA area	2013-2104	June 2014 PGA	2014-2015	Annual Increase June 2014 to 2014/2015
Cost of Gas rate	6.4795	7.1470	7.2334	
Ave. Annual Use	88.2 Dth	88.2 Dth	88.2 Dth	
Ave. Annual Gas Cost	**$571.49**	**$630.37**	**$637.99**	**$7.62**

Table 2 – Estimated Average Annual Impact on Residential customers of increased costs – North PGA

PGA area	2013-2104	June 2014 PGA	2014-2015	Annual Increase June 2014 to 2014/2015
Cost of Gas rate	$7.2137	$7.8844	$7.8910	
Ave. Annual Use	103.8	103.8	103.8	
Ave. Annual Gas Cost	**$748.78**	**$818.40**	**$819.09**	**$0.69**

Changes from Docket No. 13-566, Great Plains 2013-2014 Demand Entitlement Petition

Great Plains stated that its South PGA area needed an additional of 1,500 Dth/day and its North PGA area needed an additional 500 Dth/day of winter capacity to adequately serve its customers for the 2014-2015 winter heating season. Further, Great Plains stated that it will review its projected reserve margins to ensure adequate capacity is available to meet the projected peak day demand prior to the beginning of the 2014-2015 heating season.[5]

In Great Plains' South PGA district, pursuant to its FERC tariff, NNG adjusts each TF12 contract between TF12 Base (B) and TF12 Variable (V) effective November 1 of each year, based on the amount of capacity used during the preceding May- September period. Great Plains stated that this adjustment was not known at the time of its *Initial Petition*, but further clarified the adjustment is normally not significant and there is no deliverability difference between the TF12 Base and TF12 Variable entitlements.

Great Plains - Reply Comments

In its September 8, 2014 *Reply Comments*, Great Plains agreed with the Department's recommendations and requested that the Commission issue an Order accepting Great Plains' Demand Entitlement Filing.

[5] If adjustments are needed before the beginning of the 2014-2015 heating season, Great Plains stated that there are two options available to meet it adjusted peak day requirements: 1) includes balancing the reserve capacity of the North and South Districts or; 2) contract for monthly gate station deliveries from marketers on the NNG and/or VGT pipeline systems.

Great Plains Compliance Filing-Informational Update

In its November 25, 2014 Informational Update, Great Plains stated that its proposed increase in the North PGA area capacity of 500 Dth/day could not be contracted because VGT was required to reduce the maximum operating pressure of its pipeline, which resulted in no incremental capacity being offered for the 2014-2015 heating season. Great Plains was able to obtain its needed capacity through a firm gas purchase agreement with its natural gas supplier, who had access to released capacity from an existing VGT firm transportation shipper. The contract was effective December 1, 2014 through February 28, 2015 and provided Great Plains the ability to purchase firm gas at the town border station (TBS) delivery point.

Great Plains – Supplemental Reply Comments

In its January 20, 2015 *Supplemental Reply Comments*, Great Plains agreed with the Department's recommendations including the associated rate and bill impacts provided by the Department in of its *Reply Comments*. Great Plains apologized for its omission of the data in its November 25, 2014 submittal. Great Plains requested that the Commission issue an Order accepting Great Plains' Demand Entitlement Filing.

Department – Comments

The Department reviewed Great Plains proposed Design Day (DD) requirements, demand entitlements, resulting Reserve Margins, and the miscellaneous changes that occurred since Great Plains last 2013-2014 demand entitlement petition.

The Department summarized Great Plains proposed 2014-2015 DD requirements by PGA area, for a total increase of 1,691 Dth/day over the previous 2013-2014 level, see Table 3:

Table 3 – DD requirements:

PGA area	2013-2014	2014-2015	Difference	% increase/ (decrease)
	(1)	(2)	(3)	(4)
South	15,293	**16,312**	1,019	6.66%
North	14,140	**14,812**	672	4.75%
Total	29,433	**31,124**	1,691	5.75%

The Department stated that Great Plains used the same basic DD method that the Commission accepted in Docket No. 03-303 and that its analysis was consistent with its methodology used in Docket Nos. G-004/M-11-1075, G-004/M-12-740, and G-004/M-13-566 where the Department used two methods to gauge the reasonableness of Great Plains DD requirements for the South and North PGA areas: 1) using data from the previous five heating seasons; and 2) using data from the heating season with the overall greatest peak send-out per firm customer, which occurred before the previous five heating seasons.[6] The Department's analysis results in it

[6] For the Department's analysis, see its September 4, 2014 *Comments*, pp.4-6.

recommending to the Commission to accept Great Plains proposed DD method for both the South and North PGA areas.

Great Plains' proposed changes to its 2014-2015 demand entitlement requirements and Reserve Margin levels in its two PGA areas are summarized in Tables 4 and 5.

Table 4 – Demand Entitlements requirements:

PGA area	2013-2014	2014-2015	Difference	% increase/ (decrease)
	(1)	(2)	(3)	(4)
South	15,645	**17,145**	1,500	9.59%
North	15,000	**15,500**	500	3.33%
Total	30,645	**32,645**	2,000	6.53%

Table 5 – Reserve Margin Comparison by PGA area:

PGA area	2013-2014 Demand Entitlement Filing	2014-2015 Demand Entitlement Filing	Difference	% Difference
	(1)	(2)	(3)	(4)
South	2.3%	5.1%	2.8%	121.74%
North	6.1%	4.6%	(1.5%)	(24.59%)

The Department concluded that Great Plains reserve margins were reasonable, given the 5 percent rule of thumb typically used.

Table 6 – DD requirements, Demand Entitlements, and Reserve Margin by interstate pipeline:

PGA Area	DD Requirements	Demand Entitlements	Difference	Reserve Margin
	(1)	(2)	(3)	(4)
NNG	16,312	17,145	833	5.1%
Viking	14,812	15,500	688	4.6%
Total	31,124	32,645	1,521	4.9%

Department Concerns

For its South PGA area, Great Plains stated that NNG's reallocation of TF-12B and TF-12V services were not known at this time and that the changes were not normally significant. Further, that the adjustments should be known by November 1, 2014 and will be calculated in accordance with NNG's tariff approved by the FERC. As stated by Great Plains, no deliverability difference between TF-12B and TF-12V services exist, but the TF-12B service is less expensive than TF-12V service. The Department recommended that Great Plains supplement its *Initial Petition* once the final demand entitlement adjustments were known.

Department - Reply Comments

In its January 14, 2015 *Reply Comments*, the Department stated Great Plains provided its update on November 25, 2014, but Great Plains did not provide the associated rate and bill impacts of the VGT change or the NNG reallocation of TF-12B and TF-12V services. The Department was able to obtain the necessary information and provided an updated customer bill impact, see the following tables:

Table 7: South PGA District Annual Rate Impacts:[7]

Filing	Residential Customer at 88.2 Dth	Total Change in Residential %
July 2, 2014 – Initial Petition	$7.62	1.2%
Nov. 2014 PGA	$11.14	1.8%
Jan. 2015 PGA	$11.14	1.8%

Table 8: North PGA District Annual Rate Impacts:[8]

Filing	Residential Customer at 103.8 Dth	Total Change in Residential %
July 2, 2014 – Initial Petition	$0.69	0.1%
Nov. 2014 PGA	$2.49	0.3%
Jan. 2015 PGA	$10.60	1.3%

Department Recommendations

The Department recommended that the Commission accept Great Plains' Petition, which included:

1. Great Plains proposed design day method for the South District and the North District; and

2. Great Plains proposed reserve margins for the South District and the North District; and

3. Great Plains proposed PGA recovery of its demand entitlement proposals for the South District and the North District.

PUC Staff Comment

PUC staff reviewed Great Plains 2014-2015 demand entitlement petition for its two PGA areas and appreciates the parties' comments. PUC staff believes that for this docket, all issues have been resolved. PUC staff believes that the Department's analysis covers most of the relevant factors and will not repeat those comments.

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[7] See the Department's January 14, 2015 Reply Comments, pp. 3-4 and Attachment 1.
[8] See the Department's January 14, 2015 Reply Comments, pp. 2-3 and Attachment 1.

PUC staff generally agrees with the Department's January 14, 2015 recommendations for Great Plains South and North PGA areas, but offers additional discussion.

Annual PGA Rate Impacts

PUC staff has reviewed the PGA factor increases as calculated by the Department in its January 14, 2015 *Reply Comments* and believes that each PGA area's factor increases were caused by:

For the South PGA area:
The majority of the PGA factor increase was caused by Great Plains additional 1,500 Dth/day contract and the shift between NNG's TF-12B and TF-12V services.

For the North PGA area:
The majority of the PGA factor increase was caused by the VGT rate increase settled from its last FERC rate petition and the additional 500 Dth/day capacity purchased from its natural gas supplier.

PUC staff agrees with the Department that the proposed PGA factors and associated increases seem reasonable, when considering the resulting Reserve Margins are calculated in the 5% range, which are considered acceptable by the Department.

Non-Heating Season Capacity Shortage

During PUC staff's review, which normally focuses on the Winter Period's DD requirements, demand entitlements, and the resulting Reserve Margins, staff noticed that Great Plains' Non-Heating Season Capacity resulted in a capacity shortage, see the following table:

Table 9: Non-Heating Season DD requirements, Demand Entitlements, and Reserve Margin by interstate pipeline:

PGA Area	DD Requirements	Demand Entitlements	Difference	Reserve Margin
	(1)	(2)	(3)	(4)
South	8,727	7,535	(1,192)	(13.66%)
North	8,404	8,000	(404)	(4.81%)
Total	17,131	15,535	(1,596)	(9.32%)

Great Plains did not explain how it meets its non-heating season DD requirements; however, PUC staff believes that Great Plains is probably using pipeline capacity release which is readily available during this time period. PUC staff believes that the Commission may wish to require Great Plains to provide an explanation of how it manages its non-heating season's DD requirements while reflecting a capacity shortfall. This explanation could either be provided at the August 6, 2015 Commission's Agenda meeting or through a compliance filing due 30 days after the Commission's Order is issued.

VGT Capacity Release Use Caused by VGT Pressure Reduction

In its November 25, 2014 *Informational Update Compliance Filing*, Great Plains stated that its proposed North PGA area capacity increase of 500 Dth/day could not be contracted because of

VGT's reduced maximum operating pipeline pressure. VGT was unable to offer any incremental capacity for the 2014-2015 heating season that it previously planned to offer.

Great Plains obtained capacity through a firm gas purchase agreement with its natural gas supplier, who had access to released capacity from an existing VGT firm transportation shipper. This agreement provided Great Plains with the ability to purchase firm gas at its TBS delivery point.

From the record, PUC staff cannot determine if the released capacity from the existing VGT shipper was recallable or non-recallable. If the release capacity was recallable by the VGT shipper, Great Plains could have been faced with a capacity shortage and could have been unable to make it firm deliveries to its customers.

PUC staff believes that the Commission may wish to require an explanation from Great Plains to determine if the released capacity was recallable or non-recallable. This explanation could either be provided at the August 6, 2015 Commission's Agenda meeting or through a compliance filing due 30 days after the Commission's Order is issued. If the released capacity was recallable, the Commission may wish to require Great Plains not to use recallable released capacity in its future demand entitlement petitions on the premise that a heating season capacity shortfall could result.

Decision Alternatives

1. Approve Great Plains proposed design day method for both the South and North PGA Districts; <u>and</u>

2. Approve Great Plains proposed reserve margins for both the South and North PGA Districts; <u>and</u>

3. Approve Great Plains proposed PGA recovery of its demand entitlement proposals for both the South and North PGA Districts.

<u>Non-Heating Season Design Day Requirements Shortfall</u>

4. Require Great Plains to provide an explanation of how it manages its non-heating season's DD requirements while reflecting a capacity shortfall through a compliance filing due 30 days after the Commission's Order is issued. <u>or</u>

5. Do not require Great Plains to provide an explanation of how it manages its non-heating season's DD requirements while reflecting a capacity shortfall.

<u>Recallable Capacity Release Use to Meet Design Day Requirements</u>

6. Require Great Plains not to use recallable released capacity in its future demand entitlement petitions to meet its Heating Season Design Day requirements. <u>or</u>

7. Take no action.