MINNESOTA DEPARTMENT OF COMMERCE

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April 3, 2015

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

RE: **Response Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G011/M-14-661

Dear Mr. Wolf:

The Minnesota Department of Commerce, Division of Energy Resources (Department) provides the following *Response Comments* with regards to the following matter:

> Request *(Petition)* by Minnesota Energy Resources Corporation (MERC or the Company) for approval by the Minnesota Public Utilities Commission (Commission) of changes in demand entitlements for its Consolidated System (14-661) Purchased Gas Adjustment (PGA), effective November 1, 2014.

The filings were submitted on August 1, 2014 and updated on November 3, 2014. On December 1, 2014 the Department filed its *Comments* recommending that the Commission:

- accept MERC-PNG's peak-day analysis with the caveat that the Department cannot fully verify the results of MERC's analysis;
- approve MERC-PNG's proposed level of demand entitlement and proposed recovery of associated demand costs effective November 1, 2014, contingent on the Company providing in its *Reply Comments* clarification on its petition.

The Department requested that MERC in *Reply Comments*:

- indicate whether all of the contracted demand volumes on the Great Lakes Gas Transmission, L.P. (GLGT), Viking Gas Transmission Co. (Viking), and Centra Pipeline Minnesota, Inc. (Centra) pipelines are used to serve the firm customers who are charged for these costs;
- explain how MERC intends to serve its firm customers reliably given the negative Viking pipeline reserve margin and the Viking pipeline situation based on the pressure restrictions and pressure restrictions imposed by the Pipeline and Hazardous Materials Safety Administration (PHMSA) ;
- MERC's perspective on the bi-directional Viking system;
- MERC's perspective on whether the Viking pipeline situation and related PHMSA action contributed to its decision to do the regression analysis by pipeline; and

- additional details and clarification regarding the pipeline rates for Viking, Centra and the AECO/Emerson Swap entitlement amounts and rates.

Additionally, the Department requested that MERC supplement its November PGA filing in Docket No. G011/AA-14-939 with the relevant Federal Energy Regulatory Commission (FERC) pipeline tariff sheets and associated details/clarifications for the Viking, Centra and the AECO/Emerson Swap entitlement amounts and rates.

On December 11, 2014, MERC filed a response to the Department's requests.

Regarding the first request in reference to contracted demand volumes, MERC did not provide an explanation. However, based on a similar Department request in Docket No. G011/M-14-660, (14-660 Docket) MERC stated the following in its December 8, 2014 *Reply Comments*:

> MERC only contracts for firm capacity to serve MERC firm customers based upon the design day plus a reasonable reserve margin. The contracted demand volumes on the NNG pipeline are used to serve the firm load and the interruptible customers as the margin allows, but only the firm load is used to determine our contract capacity needs.

As the Department noted in its December 1, 2014 *Comments*, MERC's design-day analysis is similar to the process that it has used in all of the prior and current Consolidated and MERC-Northern Natural Gas (NNG) system demand entitlement filings. Thus, even though MERC did not provide a specific explanation in the current docket, the Department appreciates MERC's explanation provided in the 14-660 Docket and agrees with MERC's approach in only using the firm load to determine the contracted interstate pipeline capacity needs.

Regarding the second request to provide additional details on how MERC intends to serve its firm customers reliably given the negative Viking pipeline reserve margin and the Viking pipeline situation based on the pressure restrictions and PHMSA action, MERC stated the following in its *Reply Comments*:

> In the event of the theoretical design day, because Great Lakes Gas Transmission (GLGT) and Viking Gas Transmission (VGT) interconnect each other at St. Vincent, MERC could utilize the positive reserve margin and deliver supply into GLGT on an interruptible basis. Northern Natural Gas (NNG) and VGT also interconnect at Chisago, so MERC could utilize the positive reserve margin on NNG pipeline as well to deliver supply at Chisago into NNG on an interruptible basis. In the event interruptible supply doesn't flow on VGT or NNG, MERC would curtail all interruptible volumes on VGT to ensure serving

> MERC's firm requirements. Based on the Design Day, MERC is short 267 Dth or a negative 1.68 reserve margin for Viking.

MERC's explanation is not satisfactory. In the event of a design-day, MERC would presumably curtail all interruptible customers on its system, and given the fact that MERC plans its design-day around serving firm customer requirements, it is not entirely clear how a negative reserve margin would ensure reliable service for MERC's firm customers served by the Viking pipeline. The Department notes that the heating season is over and it is unaware of any reliability issues faced by the Company during the just-concluded heating season. The Department will evaluate MERC's reserve margin during the Company's next Demand Entitlement filing to see if MERC has made improvements to its reserve margin on Viking.

Regarding the third request on MERC's perspective on the bi-directional Viking system, MERC stated the following in its *Reply Comments*:

> The Bi-Directional receipt points on VGT will be beneficial to all shippers once VGT lifts the Maximum Allowable Operating Pressure restrictions currently in place. Based on the VGT list of shippers, Xcel previously had a contract in place that allowed them to flow from Marshfield to Fargo. Xcel also agreed to purchase some incremental capacity at Marshfield.
>
> MERC's capacity has always been contracted at Emerson. MERC looked at the prospect of acquiring capacity at Marshfield and Chisago, but ANR Pipeline did not have the incremental capacity to sell on a firm basis at Marshfield and this would require an expansion on their system, which would add incremental demand costs for MERC customers.
>
> MERC has been in discussions with NNG regarding firm transportation delivered at Chisago on a longer term basis, but NNG cannot currently sell on a long term basis to Chisago and the point is moot point [sic] because there is no incremental capacity on VGT. MERC plans to look at this again after this winter to determine the best way to serve the loads off of VGT and GLGT pipelines.

The Department appreciates MERC's perspective on the bi-directional flow on Viking pipeline. The Department appreciates MERC's plans "to determine the best way to serve the loads off of VGT and GLGT pipelines." The Department observes that with any typical demand entitlement petition, the utility is expected to fully evaluate all available gas supply alternatives given its existing pipeline contracts, and based on all of the costs and benefits, to determine the least cost gas options to supply its customers. Subsequently, the utility typically presents its analysis when it files the demand entitlement petition. Thus, the Department will evaluate MERC's "plans" and its demand entitlement petition after they are filed.

Regarding the fourth request on MERC's perspective on whether the Viking pipeline situation and related PHMSA action contributed to its decision to do the regression analysis by pipeline, MERC stated the following in its *Reply Comments*:

> The situation on Viking Gas Transmission had no impact on the decision to do regressions by pipeline. Before MERC received approval to consolidate Centra and VGT, MERC had to perform six different regression analyses:
>
> - Centra-NMU
> - GLGT-PNG
> - GLGT-NMU
> - VGT-PNG
> - VGT-NMU; and
> - Thief River Falls (GLGT/VGT) (this point was dual supplied between GLGT (approximately 33%) and VGT (approximately 67%).
>
> With the approval of consolidation, MERC no longer needed to do regression between PNG and NMU so that alleviated the need to do two regressions on GLGT and VGT. In addition, effective November 1, 2014, Thief River Falls is no longer dual supplied, but is supplied entirely by GLGT. Thus we do not need to a separate regression for Thief River Falls and it is included in the GLGT regression. As a result of these changes, MERC has to do three regressions:
>
> - Centra
> - GLGT; and
> - VGT.

In its December 1, 2014 *Comments*, the Department stated the following:

> The Department notes that the Company's design-day analysis is similar to the process that it has used in prior demand entitlement filings. However, MERC performed regressions by pipeline in the present docket. Considering the July 1, 2013 rearrangement/consolidation of MERC's Viking, GLGTs, and Centra entitlements and design day estimates, this approach seems reasonable.

The Department appreciates MERC's perspective and agrees with MERC's approach as noted above.

Regarding the fifth request to provide additional details and clarification on the pipeline rates for Viking, Centra, and the AECO/Emerson Swap entitlement amounts and rates, MERC stated the following in its *Reply Comments*:

> Since the Demand Entitlement filing period is effective November 1, 2014, the rate that was used for VGT of $4.2085 was based on an average of the two rates that will be discussed in the following paragraphs ($3.3978 x two (2) months plus $4.3706 x ten (10) months divided by twelve (12) months, which equals $4.2085). The current tariff rate for VGT Zone 1 to Zone 1 and a contract term of five plus (5) years is $3.3978. . . .
>
> Effective January 1, 2015, the VGT rate will be increasing, based on a rate case settlement between VGT and the shippers. The new Zone 1 to Zone 1 rate for a five plus (5) year contract will increase to $4.3706. . . .
>
> Effective November 1, 2014, the firm transportation tariff rate on Centra Pipelines Minnesota Inc. (CPMI) increased from $1.778 to $3.251. . . .
>
> Effective November 1, 2014, the firm transportation tariff rate on Centra Transmission Holdings Inc. (CTHI) increased from $255.8270 $Cdn/103M3 or approximately $7.2470/Dth to $445.7690 $Cdn/103M3 or approximately $12.6275/Dth. . . .
>
> The cost of the AECO/Emerson Swap is not a tariff-based service but rather is dependent on current market prices. MERC submitted a Request For Proposal (RFP) to all firm suppliers on October 6, 2014. MERC received three proposals from suppliers and chose the least cost proposal which was NGX-AB NIT Month Ahead Index (7A) + $.9025. The range of proposals was from the 7A index + $.9025 up to 7A index + $1.40. . . .
>
> Finally, the Department requested that MERC supplement its November 2014 PGA filing in Docket No. G011/AA-14-939 with the relevant FERC pipeline tariff sheets and associated details for Viking, Centra, and the AECO/Emerson Swap entitlement amounts and rates. MERC has filed a supplement to its November 2014 PGA in Docket No. G011/AA-14-939 as requested.

The Department appreciates MERC's clarifications regarding the Viking, Centra pipeline rates and the AECO/Emerson Swap rates. In addition, the Department appreciates MERC's supplement filed in its November 2014 PGA Docket No. G011/AA-14-939.

The Department continues to make the same recommendations as in its December 1, 2014 *Comments* stated above, namely:

- accept MERC-PNG's peak-day analysis with the caveat that the Department cannot fully verify the results of MERC's analysis; and
- approve MERC's proposed level of demand entitlement and proposed recovery of associated demand costs effective November 1, 2014.

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

Sincerely,

/s/ SACHIN SHAH
Rates Analyst

/lt

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. **G011/M-14-661**

Dated this 3rd day of April 2015

/s/Sharon Ferguson

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