Supplemental Staff Briefing Papers and Revised Decision Alternatives

PUC Staff Comment

PUC staff's initial briefing papers summarized the Department's discussion on Balancing Costs, which included SMS, LMS, Union Balancing, and other services on NNG.[1] MERC stated that it has the responsibility to balance all customers behind its system; and stated that the balancing costs are solely paid for by its firm customers through the PGA demand portion even though all firm and non-firm customers benefit from these balancing services.

The Department recommended to the Commission that it require MERC to re-classify these costs from demand to commodity for PGA cost recovery. The Department recommended the following:

- Order MERC to remove all balancing costs such as (SMS, LMS, Union Balancing, etc.) from demand costs and move them to commodity costs in its September 1, 2012 monthly PGA filings to coincide with the Annual Automatic Adjustment (AAA) Report and True-up filing due on September 1, 2012 costs thus ensuring that all sales customers who benefit from these services pay for the associated costs. [Emphasis Added]

PUC staff initially stated that it would be impractical for the Commission to accept the Department's recommendation with a September 1, 2012 effective date because MERC's annual true-up petitions and Automatic Annual Adjustment (AAA) reports for 2011, 2012, and 2013 have been ruled on by the Commission. Thus, without reopening those dockets, no mechanism appears readily available that would allow the Commission to require MERC to adjust its monthly customer billings back to September 2012 to reflect the cost recovery change from demand to commodity. Further, PUC staff suggested to the Commission that any change (re-classification) in PGA cost recovery should be made on a prospective basis; PUC staff suggested November 1, 2014. PUC staff modified the Department recommendation to:

C. Require MERC to remove all balancing costs such as SMS, LMS, Union Balancing, etc. from demand costs and move them to commodity costs effective November 1, 2014. Require MERC in its September 1, 2015 *Annual Automatic Adjustment (AAA) Report and True-up filing*, to adjust its PGA demand revenue collected for the time period from November 1, 2014 until the date of the Commission Order to reflect all balancing costs being collected through MERC's commodity PGA factors.[2]

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[1] See PUC staff briefing papers filed on December 31, 2014, p. 6.

[2] The prospective change in how balancing costs are recovered through the PGA should be implemented to be effective on customer bills February 1, 2015. The November 1, 2014 through January 31, 2015 portion would need to be made effective through an adjustment to MERC's true-up factors in MERC's September 1, 2015 annual true-up filing.

Since filing its briefing papers,[3] PUC staff has become aware that the Commission Order in Docket No. 12-756,[4] the Annual Automatic Adjustment (AAA) Reports and Annual Purchased Gas Adjustment True-up Filings addressed this balancing cost issue. In its Order, the Commission directed Minnesota's regulated gas utilities to allocate the cost of balancing services, as well as the utility's penalty revenues and the pipeline's revenue credits, in the same manner as they allocate the commodity cost of gas. The Order stated that utilities should implement this policy in the first monthly purchased gas adjustment for costs, or true-up filings for revenues, that can reasonably be executed following the issuance of this order.[5]

Ordering Paragraph 3[6]

> Prospectively, all regulated natural gas utilities shall recover balancing service costs, and shall credit the utility's penalty revenues and the pipeline's revenue credits, to the commodity portion of the PGA effective with the earliest true-up filing (for revenues) or the earliest monthly PGA (for costs) that can reasonably be implemented.

Pursuant to the Commission's November 14, 2013 Order, MERC implemented this requirement starting on November 1, 2013. This means that MERC has already re-classified its balancing costs, its penalty revenues, and pipeline revenue credit from demand to commodity PGA cost recovery.

PUC staff has reviewed the Commission's Order in Docket No. 12-756 and believes that MERC has addressed the re-classification of balancing costs, penalty revenues, and pipeline revenue credits from demand to commodity PGA cost recovery. Therefore, PUC staff is of the opinion that its initial recommendation C[7] (reflected above) in its initial briefing papers is a repeat of a previous Commission requirement[8] and it is no longer necessary to incorporate this decision alternative in these dockets for the reclassification the balancing costs, penalty revenues, and pipeline revenue credits from demand to commodity PGA cost recovery. Therefore, PUC staff is recommending that its previous Decision Alternative C be removed from consideration and has provided Revised Decision Alternatives.

[3] PUC staff's briefing papers filed on December 31, 2014 in these dockets
[4] Issued on November 14, 2013
[5] See the Commission's November 14, 2013 Order in Docket 12-756, pp. 4-5 and Ordering paragraph 3
[6] Ibid.
[7] See PUC staff's briefing papers file December 31, 2014, p. 10 and the Decision Alternatives, p. 13
[8] Docket No. 12-756

Revised Decision Alternatives

The following Revised Decision Alternatives apply to all of the MERC dockets addressed in these briefing papers. Those dockets were:

Docket Nos. G-011/M-11-1082 (MERC-PNG GLGT)
Docket Nos. G-011/M-11-1083 (MERC-PNG Viking)
Docket Nos. G-011/M-11-1084 (MERC-PNG NNG)
Docket Nos. G-007/M-11-1088 (MERC NMU)

1. MERC Change in Demand Entitlements for 2011-2012

MERC is seeking Commission Approval for Demand Entitlement petitions effective November 1, 2011 for its 4 PGA areas; MERC-NMU, MERC-PNG Viking, MERC-PNG GLGT, and MERC-PNG NNG.

MERC and the Department do not have any issues remaining on the following resolved issues:

- Design Day Requirements Estimates
- Demand Entitlement Estimates without endorsing its design-day study analysis
- Bison and NBPL pipeline contract costs
- Reserve Margin Calculation
- Peak day send-out use per customer
- Storage Contract changes and cost recovery
- PGA Cost Recovery

A. Approve MERC's request for interstate pipeline and other capacity changes to meet its Design Day and Reserve Margin requirements as described in the listed dockets, and

B. Approve MERC's request to recover the associated cost changes in its pipeline demand entitlement contracts and supplier reservation fees as requested by MERC, and

~~C. Require MERC to remove all balancing costs such as SMS, LMS, Union Balancing, etc. from demand costs and move them to commodity costs effective November 1, 2014. Require MERC in its September 1, 2015 *Annual Automatic Adjustment (AAA) Report and True-up filing*, to adjust its PGA demand revenue collected for the time period from November 1, 2014 until the date of the Commission Order to reflect all balancing costs being collected through MERC's commodity PGA factors,~~[9] ~~and~~

[9] The prospective change in how balancing costs are recovered through the PGA should be implemented to be effective on customer bills February 1, 2015. The November 1, 2014 through January 31, 2015 portion would need to be made effective through an adjustment to MERC's true-up factors in MERC's September 1, 2015 annual true-up filing.

D. Require MERC to address the Bison/NBPL contracts in it 2015-2016 demand entitlement petitions, by requiring MERC to evaluate available gas supply alternatives to its Bison/NBPL contracts and provide parties with its analysis in its petitions in the 2015-2016 dockets.

2. Should the Commission approve the Department's recommendation to allocate the Bison/NBPL contract costs to all of MERC's customers, i.e. firm, interruptible, joint sales customers, as modified?

A. Approve the PGA recovery of costs associated with MERC-NMU's proposed demand entitlement level effective November 1, 2011 with the modification that MERC recover costs associated with the Bison Contract through the <u>commodity portion</u> of the monthly PGA and not the demand portion on a going-forward (prospective) basis. (The Commission may want to clarify the effective date of the cost recovery treatment from demand to commodity in MERC's PGA, for example, November 1, 2014.)[10] <u>and</u>

B. Approve the PGA recovery of costs associated with MERC-PNG's Northern PGA system proposed demand entitlement level effective November 1, 2011 with the modification that MERC recover costs associated with the Bison Contract through the <u>commodity portion</u> of the monthly PGA and not the demand portion on a going forward (prospective) basis. (The Commission may also want to clarify the effective date of the cost recovery treatment from demand to commodity in MERC's PGA, for example, November 1, 2014.)[11]

<u>OR</u>

C. Require MERC to continue treating the Bison/NBPL contract costs as demand costs in the demand portion of MERC's PGA chargeable to firm sales customers only.

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[10] The change in PGA demand and commodity rate factors should be implemented to be effective on customer bills February 1, 2015. The November 1, 2014 through January 31, 2015 portion would need to be made effective through an adjustment to MERC's true-up factors in MERC's September 1, 2015 annual true-up filing.
[11] Ibid.