

October 30, 2015

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

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**  
Docket No. G-011/M-15-748

Dear Mr. Wolf:

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

A *Petition* by Minnesota Energy Resources Corporation (MERC or the Company) to the Minnesota Public Utilities Commission (Commission) requesting approval to implement new base gas costs to coincide with the implementation of interim rates in its general rate case filing, Docket No. G011/GR-15-736.

The *Petition* was filed on September 30, 2015 by:

Amber S. Lee  
Regulatory and Legislative Affairs Manager  
Minnesota Energy Resources Corporation  
1995 Rahncliff Court, Suite 200  
Eagan, MN 55122

Based on its review of the Company's *Petition*, the Department withholds its recommendation until MERC provides additional information reconciling its test-year gas costs between the rate case filing and the base cost of gas filing and the Department receives MERC's response to pending Commission Staff information requests.

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

Sincerely,

/s/ LAURA B. OTIS  
Rates Analyst  
(651)-539-1828

LBO/ja  
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE  
MINNESOTA DEPARTMENT OF COMMERCE  
DIVISION OF ENERGY RESOURCES

DOCKET No. G-011/M-15-748

**I. SUMMARY OF MINNESOTA ENERGY RESOURCES' PROPOSAL**

Minnesota Energy Resources Corporation, (MERC or the Company), requests that the Minnesota Public Utilities Commission (Commission) approve a new base cost of gas to coincide with the proposed January 1, 2016 implementation of interim rates requested in its general rate case Docket No. G011/GR-15-736 (*Petition*). The Minnesota Department of Commerce, Division of Energy Resources' (Department) analysis of MERC's *Petition* is presented below.

**II. THE DEPARTMENT'S ANALYSIS**

Minnesota Rules part 7825.2700, subpart 2, requires a utility to petition for a new base cost of gas, submitted as a miscellaneous rate change, to coincide with the implementation of interim rates during a general rate proceeding. This Rule requires that "[t]he base cost of gas must separately state the commodity base cost and the demand base cost components for each class." Through its review of MERC's *Petition*, the Department concludes that the Company has complied with these requirements through its Exhibit 1, page 1 and through its supporting data and calculations provided in Exhibit 1, pages 2-23. The Department discusses the merits of MERC's demand and commodity cost filings separately below.

**A. DEMAND GAS COSTS**

The Department reviewed MERC's filing for consistency with the calculations in the rate case filing and those in the base cost of gas filing. From this analysis, the Department concludes that the information provided is consistent between the base cost of gas and rate case filings.

In its review, the Department found no inconsistencies between the sales forecast reported in the rate case filing and that which was presented in the base cost of gas filing.

The Company appears to have calculated its demand cost of gas based, in most part, on the demand entitlement units and costs that are presented in the Company's 2015 Purchased Gas Adjustment (PGA) filings.<sup>1</sup> The Department compared the figures presented in the PGA to the base cost of gas figures and concludes that contract demand amounts (dekatherms) are consistent between the two filings.

In its base cost of gas filing, the Company listed total demand costs for the 2016 test-year as \$25,470,870.<sup>2</sup>

#### B. COMMODITY GAS COSTS

MERC estimated its commodity costs based on monthly New York Mercantile Exchange (NYMEX) wellhead prices and forecasted basis point differentials for delivery at each of the interstate pipelines from which the Company receives delivered gas. The Department compared these estimated commodity cost rates to current NYMEX market expectations and concludes that, at this time, the rate estimates do not appear to be inappropriate. After estimating commodity costs for its customers, and accounting for lost gas and pipeline transportation charges, MERC calculated its total gas cost recovery amount by multiplying monthly test-year sales amounts by the monthly projected price (including surcharges). Volumetric costs were calculated by determining total gas and storage requirements<sup>3</sup> and multiplying those volumes by the applicable rates.<sup>4</sup> The final calculations are shown in MERC's Exhibit 1, pages 17-20. Hedging costs are also included in determining final gas costs. Hedging costs are shown in MERC's Exhibit 1, page 6. By adding together gas costs, volumetric costs, and hedging costs, total commodity costs can be calculated.<sup>5</sup> MERC expects total 2016 commodity costs to be \$146,368,956.<sup>6</sup>

#### C. TOTAL GAS COSTS

When MERC's proposed demand gas costs (\$25,470,870) and commodity cost of gas (\$146,368,956) are added together, the resulting total gas costs are approximately \$171,839,826.<sup>7</sup> The Department was unable to locate explicit mention of gas costs in the testimony and schedules filed by the Company in the rate case. However, Lines 54 and 55 of Exhibit SSD-23 list 2016 Minnesota Retail Revenues (with Gas Costs) and 2016 Minnesota Retail Revenues (without Gas Costs). The Department notes that this overlap would have been easier to find if the Company's *Petition* had referenced where gas costs are included in rate case filings. Based on the values in the rate case exhibit noted above,

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<sup>1</sup> For example, Docket Nos. 15-860, 15-861, and 15-862.

<sup>2</sup> *Petition*, Exhibit 1, Page 23.

<sup>3</sup> *Petition*, Exhibit 1, page 6.

<sup>4</sup> *Petition*, Exhibit 1, page 11.

<sup>5</sup> *Petition*, Exhibit 1, page 23.

<sup>6</sup> *Petition*, Exhibit 1, pages 26-28.

<sup>7</sup> *Petition*, Exhibit 1, page 23.

the implied 2016 gas costs are \$171,811,379, resulting in a difference between the rate case and base cost of gas filings of \$28,447. Therefore, the Department is unable to confirm the appropriate total gas cost level.

The Department recommends that MERC provide, in *Reply Comments*, clarifying information reconciling test-year gas costs between the rate case and base cost of gas filing. Additionally, the Department recommends that the Company provide, in *Reply Comments*, citations for any data included in the rate case filing that were calculated in the base cost of gas filing.

#### **D. OTHER ISSUES**

The Department received a copy of Information Request No. 300 (IR 300) issued by Commission Staff to MERC that raises potential issues regarding the following:

- PGA-Consolidated Demand Costs;
- PGA-Albert Lea Demand Costs;
- the NNG commodity transportation rate;
- calculation of the Consolidated PGA commodity cost of gas; and
- calculation of the Consolidated PGA storage quantities.

The Department has not yet received a copy of the Company's response to IR 300 and therefore cannot yet comment on the response's impact to the final base cost of gas calculations. The Department recommends that the Company provide its response to Commission Staff's information request in *Reply Comments*.

#### **E. TARIFF SHEETS**

MERC provided its proposed updated tariff sheets as Exhibit 2 to the *Petition*. The Department reviewed the proposed tariff sheets and concludes that the proposed changes correctly update the base cost of gas values in accordance with the calculations contained in Exhibit 1 of the *Petition*.

### **III. THE DEPARTMENT'S RECOMMENDATIONS**

Based on its review of the Company's *Petition*, the Department withholds its recommendation until MERC provides additional information reconciling test-year gas costs between the rate case filing and the base cost of gas filing and until it has had an opportunity to review the Company's response to Commission Staff's IR 300. The Department requests that the Company provide the following in *Reply Comments*:

- reconciliation of test-year gas costs between the rate case and base cost of gas filings;
- citations for any data included in the rate case filing that were calculated in the base cost of gas filing; and
- response to Commission Staff's IR 300.

/ja

## **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**  
**Comments**

**Docket No. G011/M-15-748**

**Dated this 30<sup>th</sup> day of October 2015**

**/s/Sharon Ferguson**

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