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November 6, 2015

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

RE: **Response Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G011/MR-15-748

Dear Mr. Wolf:

Attached are the *Response 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 Reply Comments filed in response to Department Comments and its review of the Company's response to Commission Staff Information Request 300, the Department recommends that the Commission **approve**, with one correction (discussed below) the *Petition* as amended.

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

Sincerely,

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

LBO/lt
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET No. G011/MR-15-748

I. SUMMARY

Minnesota Energy Resources Corporation, (MERC or the Company), filed its request 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) on September 30, 2015. The Minnesota Department of Commerce, Division of Energy Resources (Department) filed its Comments withholding recommendation until it had received MERC's response to a Commission Staff (Staff) information request and MERC's Reply Comments on October 30, 2015.

The Department received MERC's response to Staff IR 300 on October 30, 2015. This response included an updated base cost of gas worksheet. MERC filed its Reply Comments on November 4, 2015. In those Reply Comments, MERC responded to requests for information that the Department made in its *Comments* and provided its response to Staff IR 300.

II. THE DEPARTMENT'S ANALYSIS

The Department has analyzed the response to Staff IR 300 provided by MERC, including the attached updated base cost of gas spreadsheets, and has also reviewed MERC's Reply Comments. The Department's resulting analysis and conclusions are presented below.

A. STAFF IR 300 AND MERC'S RESPONSE

Attachment 1 to the Company's Reply Comments, contains responses to Staff IR 300, which consists of several questions relating to inputs in the base cost of gas model filed in the original petition. The questions related to the following inputs:

- Consolidated Purchased Gas Adjustment (PGA-Consolidated) Demand Costs;
- PGA-Albert Lea Demand Costs;
- The Northern Natural Gas (NNG) commodity transportation rate;
- Calculation of PGA-Consolidated monthly commodity cost of gas; and
- Calculation of the storage quantities retained for AECO storage in the Consolidated PGA.

1. *PGA-Consolidated Demand Costs*

In response to IR 300, MERC has updated the PGA-Consolidated demand costs in the base cost of gas spreadsheet. The updates to the Great Lakes Gas Transmission (GLGT), Centra, and Viking system demand costs result in a new 2016 Consolidated demand cost of \$3,988,197¹.

The Department has reviewed the updates made to the PGA-Consolidated demand cost calculation inputs and compared them to the values filed in MERC's most recent PGA-Consolidated filing². The updates made to the new base cost of gas spreadsheets filed by MERC are correct and appropriate.

2. *PGA-Albert Lea Demand Costs*

In response to IR 300, MERC has updated the PGA-Albert Lea contract costs in the demand inputs tab of the base cost of gas spreadsheet. The updates to the contract costs result in a new 2016 Albert Lea demand cost of \$1,330,930.³ Additionally, MERC provided information in the cells of the live worksheet detailing how the demand inputs were calculated.

The Department has reviewed the updates made to the PGA-Albert Lea demand cost calculation inputs and compared them to the values filed in MERC's most recent PGA-Albert Lea filing⁴. The updates made to the new base cost of gas spreadsheets filed by MERC are correct and appropriate.

3. *The NNG Commodity Transportation Rate*

In the initial base cost of gas filing, MERC used an NNG commodity transportation rate of \$0.369⁵. However, according to NNG's tariff,⁶ the correct rate is actually \$0.0369. MERC agreed that the rate used in the initial filing was an error and provided a correction in the updated base cost of gas spreadsheets filed with their reply comments.

¹ The initial filing Consolidated demand cost was \$2,855,076 (Initial Petition, Exhibit 1, page 26)

² Docket No. G011/AA-15-959

³ The initial filing Albert Lea demand cost was \$1,846,405 (Initial Petition, Exhibit 1, page 27)

⁴ Docket No. G011/AA-15-957

⁵ Initial Petition, Exhibit 1, page 11

⁶ NNG Tariff 9th Revised Sheet No. 50

(<http://apps.northernnaturalgas.com/Public/Tariff/default.aspx?source=cureffective&index=18>)

The Department has reviewed the updated spreadsheet and accepts the updated NNG commodity transportation rate as correct.

4. *Calculation of Consolidated PGA Monthly Commodity Cost of Gas*

In IR 300, Staff requested that MERC provide the underlying calculations used to calculate its monthly commodity cost of gas for the Consolidated PGA. Specifically, staff requested that MERC provide its commodity cost of gas by pipeline and by month.

In its response, MERC provided reference to the cells in the base cost of gas worksheet that were used to calculate the Consolidated PGA commodity cost of gas. The Department concludes that the explanation and updates provided by MERC in its response to IR 300 and Attachment 1 to the reply comments are reasonable.

5. *Calculation of the Storage Quantities Retained for AECO Storage in the Consolidated PGA*

In the final subpart of IR 300, Staff questioned MERC's calculation of the storage quantities retained for AECO storage. MERC's response provided references to the tab, along with rows and columns, in which the calculations for AECO storage can be found. MERC indicated that it continues to support those calculations.

The Department has reviewed the storage calculations referenced by MERC as provided in Attachment 1 to the Reply Comments and concludes that they appear reasonable and accurate.

B. *OTHER CHANGES MADE TO THE UPDATED BASE COST OF GAS FILING*

In its review of the updated base cost of gas spreadsheets provided by MERC in Attachment 1 to its Reply Comments, the Department identified one additional change that is not explained in MERC's responses to IR 300 or in the body of the Reply Comments. The change concerns the NNG Storage Injection/Withdraw Rate, as shown on page 11 of Attachment 1 to the petition and on page 23 of Attachment 1 to the Reply Comments. In the updated base cost of gas, the NNG Storage Injection/Withdraw Rate is increased from \$0.01490 to \$0.14900.

The Department has compared these two figures to the rate posted in NNG's tariff book⁷ and concludes that the original figure of \$0.01490 is the correct one. The Department recommends that MERC amend the updated base cost of gas filing to correct this figure.

⁷ NNG Tariff 12th Revised Sheet No. 55
(<http://apps.northernnaturalgas.com/Public/Tariff/default.aspx?source=cureffective&index=18>)

C. MERC'S REPLY COMMENTS

In the Reply Comments MERC responded to the Department's requests that it reconcile total gas costs in the rate case and the base cost of gas filing. MERC also responded to the Department's request for citations to data from the base cost of gas filing that is included in the rate case petition.

In response to the Department's first concern, MERC has shown that the difference in total gas costs is \$841, as calculated from Exhibit __ at SSD-23 and from Exhibit 1, page 23 of MERC's base cost of gas filing. The Department has verified these numbers and accepts that the \$841 difference is attributable to rounding.

In response to the Department's request for citations to data in the rate case that is derived from base cost of gas calculations, the Company provided a list of all such instances, and a citation to the Initial Filing in the rate case⁸ where the list of citations is also provided. The Department is satisfied that MERC has met the citation requirement ordered by the Commission.⁹

III. THE DEPARTMENT'S RECOMMENDATIONS

Based on its review of the Company's response to Staff IR 300 and its Reply Comments, the Department recommends that the Commission approve MERC's petition as amended in Reply Comments and with the following correction:

- Change the NNG Storage Injection/Withdraw Rate back to \$0.01490, as it was originally filed.

Additionally, the Department recommends that the Commission require MERC to file an update to the NYMEX prices used in the base cost of gas calculation for use in determining the final revenue deficiency and setting base rates, as MERC has agreed to do in the initial filing.

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⁸ Docket No. G011/GR-15-736

⁹ March 18, 2015 Order, Docket No. G011/GR-13-617

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/MR-15-748

Dated this 6th day of November 2015

/s/Sharon Ferguson

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