

December 22, 2020

Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
Saint Paul, Minnesota 55101-2147

RE: **Letter of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G022/M-20-391

Dear Mr. Seuffert:

On March 30, 2020, Greater Minnesota Gas, Inc. (Greater Minnesota or the Company), filed a Petition for Approval of Changes in Contract Demand Entitlements (Petition) with the Minnesota Public Utilities Commission (Commission). As part of this Petition, the Company requested changes to its proposed total entitlement level to serve firm customers for the upcoming 2020-2021 heating season along with the cost changes associated with these entitlements. Greater Minnesota proposed that the changes in its demand entitlements be effective on April 1, 2020 and that these rate changes would be recovered through the monthly Purchased Gas Adjustment (PGA).

On October 28, 2020, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed comments in which it recommended that the Commission allow Greater Minnesota to recover demand costs associated with its total entitlement level effective April 1, 2020 through the monthly PGA. The Department concluded that recovery of these demand costs was appropriate because the Company's proposed total entitlement level was necessary to serve firm customers on a peak day. The Department reviewed Greater Minnesota's design-day analysis, and corresponding proposed total entitlement level, and concluded that the Company's proposed entitlement level may be insufficient to ensure firm reliability on a peak day. The Department reached this conclusion after observing two potential concerns in Greater Minnesota's analysis.

First, the Department noted that customer additions leading up to October 2020 appeared similar to the customer addition patterns experienced by Greater Minnesota in 2019. The Department's analysis showed that if customer additions in 2020 were the same as 2019 then the Company would essentially have no reserve margin for the 2020-2021 heating season. However, if customer additions were less than expected, then there would be a larger effective reserve margin for the upcoming heating season.

Second, Greater Minnesota used throughput data from the 2019-2020 heating season to estimate its proposed entitlement for the upcoming heating season rather than data from the 2018-2019 heating season when Greater Minnesota's system experienced its peak sendout and weather conditions were

near the 90 heating degree day (HDD) planning objective. Given these concerns, the Department recommended that Greater Minnesota consider purchasing additional entitlements in preparation for the upcoming heating season or provide additional discussion in reply comments substantiating its consumption figures or showing that customer additions are lower than previously forecasted.

Greater Minnesota filed its reply comments on October 18, 2020 responding to the Department's concerns and request for additional information. Greater Minnesota acknowledged the Department's concerns regarding the Company's reserve margin, but responded that it is confident that it has adequate capacity for the upcoming heating season. Although Greater Minnesota is confident in its capacity position, the Company did investigate securing additional capacity for the upcoming heating season. Greater Minnesota noted that it was advised that there is no permanent capacity available through Northern Natural Gas for the upcoming heating season.

The Company also provided discussion responding to the Department's concerns with firm customer additions for the 2020-2021 heating season. Greater Minnesota noted that it projected firm customer additions of 665 customers for its determination of demand entitlement needs. The Company explained that it based its planned installations on several new developments in the Company's southern service area where new home construction was planned for 2020. However, this new home construction has been impacted by the ongoing coronavirus pandemic and, as of October 7, 2020, Greater Minnesota had only added 337 new customers or approximately 50 percent of its forecasted customer additions. Greater Minnesota further noted that it contacted the developer of these home projects, and the developer stated that it does not anticipate adding more than 100 additional customers before the end of the upcoming heating season.

Greater Minnesota also responded to the Department's concerns regarding the use per customer assumptions in its design-day analysis. In its Comments, the Department expressed concern that Greater Minnesota used use per customer from the 2019-2020 heating season to estimate design-day consumption rather than use per customer from the 2018-2019 heating season, which represented the Company's all-time peak sendout and near planning objective weather conditions of 90 heating degree days (HDD), and resulted in an under-estimate of potential firm consumption for demand entitlement purposes. Greater Minnesota responded that its decision to use 2019-2020 heating season data was predicated on the composition of its recent firm customer additions. The Company explained that the majority of Greater Minnesota's firm customer additions in 2019 and 2020 have been residential and small commercial customers that historically use less than one dekatherm per day on a peak day. As such, the Company elected to use data from the 2019-2020 heating season to balance actual, likely customer needs against the cost of carrying more reserve than necessary.

Greater Minnesota concluded its reply comments by reiterating that it does not anticipate problems with its current reserve margin, but it is cognizant of the Department's concerns and will monitor customer usage during the heating season and will watch for additional capacity it becomes available.

The Department reviewed Greater Minnesota's reply comments and concludes that a brief response is necessary to address customer additions, and the Company's use per customer specification. In terms of customer additions, the Department appreciates Greater Minnesota's updated customer growth information and discussions with the construction developer in its service territory. This updated information is helpful because it provides the Department with a more concrete estimate of expected customer levels for the heating season. The Company stated in its reply comments that it added 337 new customers as of October 7, 2020; however, the Department notes that this figure does not align with the customer count information provided in the Company's October 2020 compliance in Docket No. G022/M-15-622.¹ The monthly information in the compliance filing is broken down by firm and interruptible customers counts, and it is possible that the customer addition information provided in its reply comments refers to all customers. If the firm customer information in the October 2020 compliance filing is accurate, it suggests firm customer additions of 270 relative to last heating season. Regardless of the October customer number, the Department notes that Greater Minnesota filed its November compliance on December 17, 2020 providing updated customer count information. The Department considered the estimates provided by the building developer to Greater Minnesota and the November compliance filing to arrive at a more concrete customer count estimate for the heating season.

Based on this information, the Department notes that the building developer's estimates provided to the Company are not accurate, or the Company had significant customer growth on other parts of its system. In particular, Greater Minnesota added over 100 new firm customers between October and November 2020 according to data provided in Docket No. G022/M-16-522, and the Company reported 9,446 firm customers at the end of November 2020.² If these customer additions are not related to the building developer referenced by Greater Minnesota, the Department concludes that firm customer counts entering the middle of the 2020-2021 heating season will be approximately 9,450 to 9,550. Using Greater Minnesota's all-time peak day sendout of 1.603 Dekatherm (Dth) per customer, these customer projections result in a total potential design-day of approximately 15,148 Dth to 15,309 Dth. These estimates translate into an estimated reserve margin of between 1.95 and 3.04 percent based on the Company's total entitlement level of 15,608 Dth. Although these reserve margin estimates are below the level the Department has recommended in previous demand entitlement filing, and approved by the Commission, the Department concludes that, given current economic conditions, it is likely that the Company has procured sufficient capacity to serve firm customers on a peak day.

In terms of the Company's use per customer methodology, the Department continues to conclude that data from the 2018-2019 heating season represents the most appropriate method to estimate design-day consumption. The Company's decision to use 2019-2020 data appears driven by a notable observation, namely that recent customers additions have been residential and small commercial

¹ November 19, 2020 Compliance Filing, Docket No. G022/M-16-522. Greater Minnesota stated that as of October 2020, the Company had a total of 9,333 firm customers and 95 interruptible customers.

² December 17, 2020 Compliance Filing, Docket No. G022/M-16-522. Greater Minnesota stated that as of November 2020, the Company had a total of 9,446 firm customers and 94 interruptible customers.

customers; however, Greater Minnesota's decision is flawed. First, the Company's decision places too great an emphasis on new customer additions. This decision may under-estimate peak day consumption by Greater Minnesota's firm customers who were added to the system prior to 2019. Based on the information provided in Department Attachment 2,³ the firm customer additions in 2019 and 2020 referenced by the Company as justification for using 2019-2020 heating season data represent approximately 10 to 15 percent of all firm customers. This means that Greater Minnesota's methodology may under-estimate design-day consumption for the other 85 to 90 percent of firm customers.

Second, as noted in the Department comments, the use of 2018-2019 heating season is the most appropriate method because it includes data from the Company's all-time peak sendout. Since the goal of the demand entitlement is to estimate consumption on an all-time peak day, it stands to reason that 2018-2019 heating season data will produce more representative results.

Based on its review, the Department recommends that the Commission:

- Accept Greater Minnesota's proposed entitlement level and resulting reserve margin; and
- Allow Greater Minnesota to recover demand costs associated with the Company's entitlements through the monthly Purchased Gas Adjustment effective April 1, 2020.

The Department also recommends that Greater Minnesota consider, to the extent cost effective options are available, purchasing additional entitlements for the 2020-2021 heating season. Although its total entitlement level is likely sufficient to ensure firm reliability on a peak day, the Company's reserve margin remains below levels typically approved for Greater Minnesota.

The Department also recommends that the Commission continue to require Greater Minnesota to include the following in future demand entitlement filings:

- Use a constant annual average residential usage estimate based on weather normalized sales for the purpose of estimating customer rate impact;
- Perform separate regression analyses by service area, using area-specific weather stations;
- Estimate its design day using data from at least 3 heating seasons when appropriate. If the results of these calculations are not acceptable, the Department recommends that the Company fully explain its decision to use a shorter estimation period in its initial filing; and
- Maintain, on a going-forward basis, a two-part design-day process involving both regression analysis and mathematical analysis based on the Company's historical all-time peak-day sendout.

³ October 28, 2020 Department Comments.

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

Sincerely,

/s/ ADAM J. HEINEN
Public Utilities Rates Analyst

AJH/ja

CERTIFICATE OF SERVICE

I, Marcella Emeott, hereby certify that I have this day served copies of the following document on the attached list of persons by electronic filing, 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 – LETTER

Docket No. G022/M-20-391

Dated this **22nd** day of **December 2020**.

/s/Marcella Emeott

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Kristine	Anderson	kanderson@greatermngas.com	Greater Minnesota Gas, Inc. & Greater MN Transmission, LLC	1900 Cardinal Lane PO Box 798 Faribault, MN 55021	Electronic Service	No	OFF_SL_20-391_M-20-391
Cody	Chilson	cchilson@greatermngas.com	Greater Minnesota Gas, Inc. & Greater MN Transmission, LLC	1900 Cardinal Ln PO Box 798 Faribault, MN 55021	Electronic Service	No	OFF_SL_20-391_M-20-391
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1400 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_20-391_M-20-391
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 280 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_20-391_M-20-391
Brian	Gardow	bgardow@greatermngas.com	Greater Minnesota Gas, Inc. & Greater MN Transmission, LLC	1900 Cardinal Ln PO Box 798 Faribault, MN 55021	Electronic Service	No	OFF_SL_20-391_M-20-391
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Greg	Palmer	gpalmer@greatermngas.com	Greater Minnesota Gas, Inc. & Greater MN Transmission, LLC	1900 Cardinal Ln PO Box 798 Faribault, MN 55021	Electronic Service	No	OFF_SL_20-391_M-20-391
Generic Notice	Residential Utilities Division	residential.utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012131	Electronic Service	Yes	OFF_SL_20-391_M-20-391
Will	Seuffert	Will.Seuffert@state.mn.us	Public Utilities Commission	121 7th PI E Ste 350 Saint Paul, MN 55101	Electronic Service	Yes	OFF_SL_20-391_M-20-391