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August 21, 2008

PUBLIC DOCUMENT

Dr. Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101-2147

RE: **PUBLIC Comments of the Minnesota Office of Energy Security**
Docket No. G002/M-07-1395

Dear Dr. Haar:

Attached are the **PUBLIC Comments** of the Minnesota Office of Energy Security (OES) in the following matter:

Petition for Approval of Changes in Contract Demand Entitlements of Northern States Power Company (Xcel Energy or the Company).

The petition was originally filed on November 1, 2007. The petitioner on behalf of Xcel Energy is:

Nancy Haley
Regulatory Case Specialist
Xcel Energy
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Minneapolis, MN 55401
612-330-2865

The OES recommends the Commission **approve** Xcel Energy's petition for approval of demand entitlement changes as filed. The OES also recommends that the Commission **approve** the Company's proposed recovery of the costs associated with the requested demand entitlement levels effective November 1, 2007, and allow the Company to recover such costs in its monthly PGA beginning November 1, 2007.

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

Sincerely,

/s/ MARLON F. GRIFFING
Financial Analyst

MFG/jl
Attachment



BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

PUBLIC COMMENTS OF THE
MINNESOTA OFFICE OF ENERGY SECURITY

DOCKET NO. G002/M-07-1395

I. SUMMARY OF XCEL ENERGY'S REQUEST

Pursuant to Minnesota Rules 7825.2910, subpart 2, and 7825.3100, subpart 9 and 7825.3200, Xcel Energy (Xcel Energy or the Company) filed a demand entitlement petition (Petition) on November 1, 2007. In its Petition, Xcel Energy requests approval from the Minnesota Public Utilities Commission (Commission) to implement its proposed 2007-2008 Natural Gas Heating Season Supply Plan effective November 1, 2007, and to change its firm pipeline demand entitlement levels¹ as follows:

- increase its total Design Day requirement by 14,384 dekatherms (Dth);
- increase the resources to meet the Design Day requirement;
- increase its reserve margin by 21,835 Dth;
- change the Jurisdictional Allocations among Minnesota and North Dakota to reflect usage patterns; and
- change its Supply Reservation fees.

Xcel Energy also requests approval to recover demand-entitlement costs associated with the proposed transportation capacity and third-party supply reservation levels in the Company's monthly PGA, effective with the November 1, 2007 billings.

The Company has included a proposal to assign some of its demand costs to interruptible customers. The proposal reflects Xcel Energy's assessment of which Producer Demand and Storage costs should be assigned to interruptible customers.

¹ The entitlement levels discussed in Xcel Energy's system filing are the combined entitlements for Xcel Energy's Minnesota and North Dakota jurisdictions. Minnesota's portion of the entitlements is the total combined entitlements times the Minnesota allocation factor discussed below. The OES has included OES Attachment 1, which shows the effect of the demand entitlement changes on Minnesota.

II. OES ANALYSIS OF XCEL ENERGY'S REQUEST

The Minnesota Office of Energy Security's (OES) analysis of the Company's request includes a description and an evaluation of the Company's demand entitlement petition. The OES separately discusses each part of the Company's request. Based on its investigation, the OES concludes that the Company's proposed 2007-2008 demand entitlement level is appropriate.

A. XCEL ENERGY'S PROPOSED DESIGN DAY LEVELS

Xcel Energy projects that its system Design Day requirement will increase 14,384 Dth to 770,067 in the 2007-2008 heating season. The Company employed two methodologies to arrive at this estimate of its Design Day requirement. One is the Actual Peak Use per Customer Design Day (UPC DD), while the other is the Average Monthly Design Day (Avg. Monthly DD).

The UPC DD method employs a use-per-customer number of 1.57393 Dth on the Design Day, a value that the Company derived from usage data on Thursday, January 29, 2004, the coldest day in recent years. The OES notes that this usage value has been employed by the Company in demand entitlement dockets subsequent to 2004. The 1.57393 value is multiplied by estimates of total customers to arrive at the expected Design Day demand.

The Avg. Monthly DD method is a statistical method that uses linear regression to estimate Design Day demand. Xcel Energy notes that because it revised its customer service regions in 2005, which are the basis of the regression input data, it has only 25 months of data available. The Company acknowledges this number of data points is less than desired in statistical analysis, but notes that the regression's r-squared values, a measure of how well a particular regression "explains" the outcome of a regression, are above 95 percent.

The OES recommends that the Company continue to use the two methods to develop its Design-Day estimate. The OES also expects that Xcel Energy will increase the number of data points in the Avg. Monthly DD method as they become available. Thus, this method will improve in statistical reliability in coming demand entitlement filings as the data point numbers grow. In the meantime, the UPC DD provides a reasonable check on the results.

The OES concludes that Xcel Energy's Design Day requirement increase of 14,384 Dth is reasonable. Xcel Energy presents information to demonstrate that the increase in the Design-Day requirement is similar to the increase in customers across the Company's system. OES Attachment 1 takes Minnesota state data provided in the filing and estimates the effect of increases in customers on Minnesota's Design Day requirements. The OES notes that Xcel's filing shows that the growth in customers in Minnesota is expected to be 7,217, or about 1.7 percent. The increase in customers in North Dakota is expected to be 1,321, or about 3.1 percent. Thus it is expected that the relative increase in Design-Day volumes for Minnesota would be less than the increase for North Dakota, where the remainder of Xcel Energy's system customers are

located. Xcel Energy's proposal does, in fact, assign a relatively smaller volume demand increase to Minnesota, at 5,984 Dth, whereas the assignment to North Dakota is an 8,400 Dth increase.

Minnesota, which represents 88.79 percent of Xcel Energy's system, will have about 41.59 percent (5984 Dth/14,384 Dth) of the growth in Dth. Given that North Dakota is expected to grow relatively more than Minnesota, the Dth assignment is reasonable. Further, this departure from strict proportional growth can be explained by different mixes of customers or changes in customer patterns between Minnesota and North Dakota. To complete the record in this proceeding, the OES invites Xcel to provide any information it can in its Reply Comments that explains the growth rates, such as information about the types of customers expected to locate in North Dakota and Minnesota in 2008 and 2009.

B. CHANGES IN XCEL ENERGY'S DESIGN-DAY RESOURCES

Xcel Energy's filing reflects changes in the resources used to meet its Design Day customer requirements.

1. Northern Natural Gas Company Entitlements

The majority of Xcel Energy's firm pipeline transportation contracts are with Northern Natural Gas (Northern) and a majority of those contracts expired on November 1, 2007. Xcel Energy explored alternatives to providing firm gas supplies to the Twin Cities metro area in those circumstances. The Company chose to renew its contracts with Northern. The mix of base and variable contracts has changed somewhat as Xcel Energy chose new contracts that better fit its needs. The OES concludes the Company has made reasonable choices in choosing the new contracts.

Xcel Energy is making a change effective with this filing in how it allocates transportation entitlements among base and variable elements. Previously, the Company would receive a base/variable split from Northern based on actual throughput from May to September of the current year, meaning it would request an extension to the filing deadline in order to include the information because it was not typically available on November 1. Instead, Xcel Energy proposes to include the actual base/variable split in its Annual Automatic Adjustment (AAA) and purchased gas adjustment (PGA) true-up filing due September 1, 2008. This approach will bring Xcel Energy into line with the approach used by other natural gas utilities in Minnesota. The OES concludes that this change is reasonable.

2. *Viking Gas Entitlements*

Xcel Energy increased its firm transportation capacity entitlements on Viking by 9,100 Dth per day to meet system growth. The Company also found that it no longer needed to backhaul natural gas on Viking because of the new contracts with Northern that resulted in capacity being turned back to Northern. The OES concludes that the changes in the Viking contracts are reasonable.

C. *CHANGE IN XCEL ENERGY'S RESERVE MARGIN*

Xcel Energy has increased its projected Design Day reserve margin in Minnesota from 2.73 percent in 2006-2007 to 5.53 percent in the current filing. See OES Attachment 1. Xcel Energy states that it bases its reserve margin on the firm resources necessary to meet projected firm customer demand plus the capability of either the largest pump at its Wescott facility used to vaporize LNG or at its St. Paul metro propane-air peak-shaving plant. The capacity decision reflects Xcel Energy's assessment of the most economical method of adding capacity to meet demand beyond the forecasted Design Day demand. The reserve margin balances ensuring reliability of supply on days of extreme cold weather with the likelihood of experiencing Design Day conditions.

This OES analysis shows that the Company's proposed total design-day entitlement level meets the needs of its projected number of firm customers. Reserve margins in the 5-7 percent range are typical. Therefore, the OES concludes that Xcel Energy's increase in the reserve margin is reasonable.

D. *CHANGES IN XCEL ENERGY'S JURISDICTIONAL ALLOCATIONS*

1. *Decrease in Minnesota Jurisdiction Allocation Factor*

The previously noted relatively large increase in North Dakota demand entitlement compared with the increase in Minnesota is reflected in the new Minnesota Jurisdictional Allocation Factor. The factor is calculated by dividing the Design Day forecasted demand for Minnesota by the same demand for the Company system. The larger increase in the North Dakota demand forecast means that Minnesota's share of the forecasted demand entitlement decreases. The Avg. Monthly DD results are used to update the allocation factor, which fell from 89.68 percent to 88.79 percent.

2. *Increase in Minnesota Grand Forks Area Jurisdiction Allocation Factor*

The allocation factor for East Grand Forks, Minnesota, for Design Day demand in the Grand Forks Area Jurisdiction increased from 13.58 percent to 14.80 percent. The increase is a result of the Design Day forecasted demand for East Grand Forks growing more than the Design Day

forecasted demand for the rest of the territory served by the Grand Forks area transmission-looping project.

3. *Decrease in Minnesota Fargo Area Jurisdiction Allocation Factor*

The Design Day allocation factor for Moorhead, Minnesota dropped from 21.99 percent to 21.75 percent for Design Day demand on the Fargo-Moorhead area looping project. The increase is a result of the Design Day forecasted demand for Moorhead growing less than the Design Day forecasted demand for the rest of the territory served by the transmission-looping project.

The OES concludes that the proposed changes in the jurisdictional allocation factors are reasonable and supported by the Petition.

a. *Changes in Xcel Energy's Supplier Reservation Fees*

Xcel Energy notes that its Supplier Reservation fees have changed. **[TRADE SECRET DATA HAS BEEN EXCISED]**. The new charges level reflects updated costs of the reservations. The OES, therefore, concludes that this transaction reasonable.

b. *Xcel Energy's PGA Cost Recovery Proposal*

The OES concludes that Xcel Energy's proposal to reflect the costs associated with the revised demand entitlements is reasonable. Thus, the OES recommends that the Commission allow the costs to be recovered through the PGA effective with November 2007 billing cycles.

c. *Xcel Energy's Proposal to Assign Demand Costs to Interruptible Customers*

Xcel Energy states that interruptible sales customers are receiving the benefits of storage and balancing services on non-Design Days. Thus, a portion of these costs could justifiably be recovered from these customers. The Company has, therefore, developed a proposal to make such an assignment of costs on a prospective basis.

Xcel Energy's proposal begins with underground storage costs. Interruptible sales customers receive benefits from these facilities and the gas stored in them in their monthly weighted average cost of gas. Thus, the Company states that a portion of the capacity demand charges should be allocated to these customers. Xcel Energy divides the annual cost of all storage facilities it uses divided by heating season (November-March) budgeted sales to calculate a per-Dth cost to be paid on all gas commodity sales, both firm and interruptible, during the heating

season. When this method is applied, about 13 percent of the storage capacity demand charges would be allocated to interruptible sales customers.

Xcel Energy also proposes to assign some pipeline balancing costs to interruptible sales customers. The Company balances both firm and interruptible sales customers' requirements on a daily basis on both the Northern and Viking systems. Hence, the Company believes that a portion of these interstate pipeline balancing service demand charges should be allocated to the interruptible sales customers. The Xcel Energy proposal is to calculate a per-Dth cost by dividing total annual demand costs for the balancing services by budgeted annual sales to be paid on all gas commodity sales. About 17 percent of the total demand charges will be paid by interruptible sales customers under this method.

Xcel Energy's proposal represents a systematic approach to determining when interruptible customers benefit from the services associated with demand costs. Therefore, the OES concludes that the proposal is reasonable.

III. CONCLUSIONS AND RECOMMENDATIONS

The OES recognizes that Xcel Energy's Design-Day demand levels and the demand entitlement resources that support that demand level change periodically. The revisions reflect changes in usage patterns, contract prices, and so forth. Thus, in order to update Xcel Energy's demand entitlements, the OES recommends that the Commission approve:

- the increase in Design Day demand;
- the changes in resources necessary to meet Design Day demand;
- the requested increase in the Design Day reserve margin;
- the requested changes in the Design Day jurisdictional allocation factors;
- the requested changes in supplier reservation fees;
- the PGA recovery of the costs associated with the requested changes, effective November 1, 2007; and
- the Company's proposal for allocating some demand costs to interruptible customers.

The OES also requests that Xcel Energy provide further information, in reply comments, regarding the differences in increases in customer growth in Minnesota and North Dakota.

Northern States Power Company d/b/a Xcel Energy

Heating Season	Number of Firm Customers			Design-Day Requirement			Total Entitlement Plus Peak Shavir		
	(1) Number of Customers	(2) Change from Previous Year	(3) % Change From Previous Year	(4) Design Day (Dth)	(5) Change from Previous Year	(6) % Change From Previous Year	(7) Total Design-Day Capacity (Dth)	(8) Change from Previous Year	(9) % Change Previous
2007-2008*	431,503	7,217	1.70%	683,717	5,984	0.88%	721,506	25,249	3.63
2006-2007	424,286	2,716	0.64%	677,733	6,887	1.03%	696,257	4,568	0.66
2005-2006	421,570	10,584	2.58%	670,846	21,191	3.26%	691,689	16,569	2.45
2004-2005	410,986	9,353	2.33%	649,655	46,187	7.65%	675,120	31,805	4.94
2003-2004	401,633	5,826	1.47%	603,468	(4,388)	-0.72%	643,315	1,040	0.16
2002-2003	395,807	10,913	2.84%	607,856	3,383	0.56%	642,275	1,928	0.30
2001-2002	384,894	9,478	2.52%	604,473	6,798	1.14%	640,347	5,156	0.81
2000-2001	375,416			597,675			635,191		

Average: 2.01% 1.97% 1.85

*-Reflects the UPC DD method.

14384 0.416017798

Heating Season	Firm Peak-Day Sendout						
	(11) Firm Peak-Day Sendout (Dth)	(12) Change from Previous Year	(13) % Change From Previous Year	(14) Excess per Customer [(7) - (4)]/(1)	(15) Design Day per Customer (4)/(1)	(16) Entitlement per Customer (7)/(1)	(17) Peak-Day Send per Customer (11)/(1)
2007-2008	unknown			0.0876	1.5845	1.6721	unknown
2006-2007	568,963	31,303	5.82%	0.0437	1.5973	1.6410	1.3410
2005-2006	537,660	286	0.05%	0.0494	1.5913	1.6407	1.2754
2004-2005	537,374	(23,876)	-4.25%	0.0620	1.5807	1.6427	1.3075
2003-2004	561,250	26,865	5.03%	0.0992	1.5025	1.6017	1.3974
2002-2003	534,385	57,882	12.15%	0.0870	1.5357	1.6227	1.3501
2001-2002	476,503	(60,412)	-11.25%	0.0932	1.5705	1.6637	1.2380
2000-2001	536,915						1.4302
Average			1.26%	0.0746	1.5630	1.6354	1.3342

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