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April 2, 2014

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

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E,G002/M-14-185

Dear Dr. Haar:

Attached are the comments of the Minnesota Department of Commerce, Division of energy Resources (Department) in the following matter:

Petition of Northern States Power Company, d/b/a Xcel Energy, for Approval of a Modification to the Natural Gas State Energy Policy (SEP) Tariff Rate, 2014 Project Eligibility, 2014 SEP Adjustment Factor, and 2013 SEP Compliance Filing.

The Petition was filed on March 3, 2014 by:

Paul J. Lehman
Manager, Regulatory Compliance and Filings
Xcel Energy Service Inc.
414 Nicollet Mall – 7th Floor
Minneapolis, Minnesota 55401

The Department recommends **approval, as modified by Xcel Energy's March 6 amended petition, and with reporting requirements**, and is available to answer any questions the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ SUSAN MEDHAUG
Supervisor, Energy Regulation & Planning

SM/ja
Attachment



BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE

DOCKET NO. E,G002/M-14-185

I. BACKGROUND

In its April 6, 2004 *Order Approving State Policy Rate Rider, as Modified* in Docket No. E,G002/M-03-1544 (03-1544 Order), the Minnesota Public Utilities Commission (Commission) approved Northern States Power Company, d/b/a Xcel Energy's (Xcel or the Company), State Energy Policy Rider (SEP Rider). The Commission also directed Xcel Energy to submit an annual filing by March 1 of each year detailing the following information:

- a) electric-related Reliability Administrator (RA) and State building guidelines (SBG) expenses, Xcel Energy-Prairie Island settlement expenses, and costs associated with the independent study of intermittent resources;
- b) revenues obtained from the approved electric SEP Rider adjustment;
- c) proposed revised electric SEP Rider rate, together with a listing and description of all assumptions used to calculate the proposed revised electric SEP Rider rate;
- d) natural gas related RA and SBG expenses;
- e) revenues obtained from the approved gas SEP Rider rate; and
- f) proposed revised gas SEP Rider rate, together with a listing and description of all assumptions used to calculate the proposed revised gas SEP Rider rate.

Since its 03-1544 Order, the Commission has issued determinations concerning the Company's SEP Rider in ten separate proceedings.¹ Most recently, the Commission's December 11, 2013 Order in Docket No. E,G002/M-13-959 reduced Xcel Energy's electric SEP Rider adjustment factor to \$0.000000, effective January 1, 2014, to facilitate the move of the electric SEP revenue requirement into base rates through the current rate case (Docket No. E002/GR-13-868).

Further, the Commission's June 3, 2013 Order in Docket No. E,G002/M-13-161 discontinued the cast iron replacement project reporting, but required Xcel Energy to provide in its next SEP Rider filing:

- a. A comparison by month for the past twelve months for which actual data is available of the actual electric and natural gas costs to the budgeted costs; and
- b. A discussion of reasons for deviations from budgeted amounts (both higher and lower).

On March 6, 2014, Xcel Energy filed its *Petition for Approval of a Modification to the Natural Gas SEP Tariff Rate, 2014 Project Eligibility, 2014 SEP Adjustment Factor, and 2013 SEP Compliance Filing* (Petition) in the present docket to revise the Company's natural gas SEP Rider rates, with a proposed effective date of July 1, 2014. Xcel Energy provided a corrected petition on March 6, 2014. The Company's proposal would decrease the natural gas SEP Rider rate from \$0.002736 per therm to \$0.002238 per therm.

Xcel Energy proposed to continue to show the natural gas SEP Rider rate in a separate line item on customer bills entitled "Resource Adjustment." In addition, as discussed in Section II.C.6 below, Xcel Energy proposed to notify its customers of the updated Resource Adjustment with a message on customer bills.

¹ The specific proceedings are:

- Docket No. E002/M-05-359;
- Docket No. E002/M-06-364;
- Docket No. E,G002/M-07-283;
- Docket No. E,G002/M-08-261;
- Docket No. E,G002/M-09-201;
- Docket No. E,G002/M-10-210;
- Docket No. E,G002/M-11-175;
- Docket No. E,G002/M-12-185;
- Docket No. E,G002/M-13-161; and
- Docket No. E,G002/M-13-959.

II. DEPARTMENT ANALYSIS

A. COMPLIANCE WITH THE IMPLEMENTATION PROCESS APPROVED IN DOCKET NO. E,G002/M-03-1544

According to the implementation process approved by the Commission in the 03-1544 Order, Xcel Energy is to submit a compliance filing by each March 1 containing the actual and forecasted information needed to determine any true-up amount to be recovered from or returned to ratepayers as a result of the operation of the SEP Rider. The Company is also required to submit a miscellaneous filing to establish new electric and gas SEP Rider rates for the subsequent fiscal year, incorporating amounts anticipated to be incurred and including any true-up amounts from the operation of the SEP Rider during the current year. The Department reviewed the Petition and concludes that Xcel Energy has submitted the information required by the implementation process approved in the 2003 proceeding.

B. COMPLIANCE WITH THE COMMISSION'S ORDER IN DOCKET NO. E,G002/M-13-161

Xcel Energy's Petition did not provide the required comparison between actual and budgeted monthly costs. As a result, the Department recommends that Xcel provide the required information as soon as possible. Despite Xcel's failure to provide the required information in a timely manner, the effective date of the proposed reduction in rates in this petition should not be delayed beyond the July 1, 2014 timeline.

C. REASONABLENESS OF THE PROPOSED NATURAL GAS SEP RIDER RATE

1. Energy-Related Mandates

Xcel Energy proposed to include costs associated with two legislative mandates:

- Reliability Administrator (RA), and
- Sustainable Building Guidelines (SBG).

The proposed budget includes RA and SBG costs of \$20,621. Xcel Energy noted that Minnesota Statutes §216C.052 was repealed in the 2011 legislative session. However, as the Department continues to be able to bill the Company for RA and SBG costs, it is appropriate to continue to recover those costs through the SEP Rider.

2. *Cast Iron Replacement Project*

In its November 25, 2008 *Order Accepting and Modifying Petition Regarding State Energy Policy Rider* in Docket No. E,G002/M-08-261 (November 25 Order), the Commission approved recovery of costs associated with Xcel Energy's replacement of the remaining cast iron gas pipe on the Company's system through the SEP Rider. Total revenue requirements for the Cast Iron Replacement Project are shown in Attachment D2 to Xcel Energy's March 6 corrected Petition. As required by the November 25 Order, Xcel Energy included a corresponding operation and maintenance (O&M) credit for savings associated with the Cast Iron Replacement Project of \$72,310 for the 2014 SEP period. As required by the Commission's September 23 Order in Xcel Energy's 2010 SEP Rider filing,² the Company's Attachment D3 details Xcel Energy's O&M credit, which reflects the outcome of the Company's last natural gas rate case (Docket No. G002/GR-09-1153).

The Department concludes that including the costs for the Cast Iron Replacement Project in the SEP tracker account as proposed by Xcel is reasonable.

3. *Carbon Offsets*

In Xcel Energy's 2008 SEP Rider proceeding, the Commission required that the Company:

- Report, in all future SEP Rider filings, the sale of any carbon offset or credit for decreased greenhouse gas emissions associated with gas pipe replacement under the Project; and
- Credit the gas SEP tracker account with any proceeds received by the Company from the sale of each carbon offset or credit associated with the Project.

In its Petition, Xcel Energy stated that the Company has not sold any carbon offsets or credits for greenhouse gas emissions associated with natural gas cast iron pipe replacement under the SEP Rider to date; consequently, there are no carbon offsets and/or credits to report, or proceeds to credit to the SEP tracker account. As Xcel Energy noted in its previous SEP Rider filings, the Company began annual reporting to the U.S. Environmental Protection Agency (EPA) of greenhouse gas emissions for all types of natural gas pipe material in September 2012.³ Attachment H of Xcel Energy's Petition contains the summary of their EPA report. The Department concludes that Xcel Energy's statements regarding carbon offsets and credits comply with the Commission's requirements on this issue as established in the Company's 2008 SEP Rider proceeding.

² Docket No. E,G002/M-10-210.

³ 40 C.F.R. Part 98, Subparts A and W.

4. *Relationship to Rate Cases*

Attachment F to Xcel Energy’s Petition is the Bridge Schedule which shows that the Company did not include SEP revenues or expenses in its last natural gas rate case (Docket No. G002/GR-09-1153).

The Department confirmed Xcel Energy’s assertion that the Company’s proposed SEP rate factor includes only incremental costs not currently recovered elsewhere in rates.

5. *Rate Calculation*

Table 1 below summarizes Xcel Energy’s calculation of its proposed natural gas SEP Rider rate.

Table 1: Proposed Natural Gas SEP Rider Rate

	Approved 2013	Proposed 2014	\$ Change	% Change
RA/SBG Costs	\$11,378	\$20,621	\$9,243	81.24%
Cast Iron Pipe Costs	\$2,022,071	\$1,964,495	(\$57,576)	(2.85%)
Cast Iron O&M Credit ⁴	(\$72,310)	(\$72,310)	\$0	0%
Tracker True-up	\$413,829	\$114,973	(\$298,856)	(72.22%)
Total Costs	\$2,374,969	\$2,027,780	(\$347,189)	(14.62%)
Therm Sales Forecast	868,130,120	906,126,034	37,995,914	4.38%
Factor per therm	\$0.002736	\$0.002238	(.000498)	(18.20%)

As shown in Table 1, Xcel Energy proposed to decrease its natural gas SEP Rider rate by 18.20 percent. The Department reviewed Xcel Energy’s calculations and recommends that the Commission allow the Company to recover the requested costs through its SEP Rider.

6. *Customer Notice*

The Department notes that Xcel Energy proposed to include the following customer notice when the revised SEP rate takes effect:

We have updated the Resource Adjustment line item on your bill to reflect changes in the State Energy Policy (SEP) portion of the Resource Adjustment, which recovers the costs of State Energy-related mandates and greenhouse gas emissions reductions. The

⁴ Xcel Energy notes in footnote 2 of Attachment D3 of its Petition that the O&M credit approved for 2013 will not change going forward since all replacement work has been completed.

natural gas SEP portion of the Resource Adjustment decreased to \$002238 per therm. Questions? Contact us at 1=800-895-4999 or xcelenergy.com.

Other than the updated adjustment factor, Xcel Energy's proposed customer notice is consistent with the notice approved by the Commission in the Company's previous SEP Rider proceedings. Therefore, the Department recommends that the Commission approve Xcel's proposed customer notice.

III. RECOMMENDATION

While Xcel Energy's Petition does not fully comply with the Commission's Order in Docket No. E,G002/M-13-161, approval of the Petition would result in a savings to ratepayers; therefore, the Department recommends that the Commission approve Xcel Energy's proposed 2014-2015 natural gas SEP Rider adjustment factor of \$0.002238. Further, the Department recommends that the Commission approve Xcel Energy's proposed customer notice and tariff update to incorporate the approved adjustment factors.

The Department requests that Xcel Energy provide the missing budget vs. actual cost comparison as soon as possible.

Consistent with past filings, the Department also recommends that Xcel Energy provide the following information in the Company's next SEP Rider filing:

- A comparison by month for the past twelve months for which actual data is available of the actual natural gas SEP-related costs to the budgeted costs;
- A discussion of reasons for deviations from budgeted amounts (both higher and lower).

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