

August 8, 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. G002/M-14-583

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 (Xcel) for Approval of New Area  
Surcharge Riders for Barnesville, Holdingford, and Pillager.

The Petition was filed on July 9, 2014 by:

Paul J. Lehman  
Manager, Regulatory Compliance and Filings  
Xcel Energy  
414 Nicollet Mall  
Minneapolis, Minnesota 55401

As discussed in greater detail in the attached Comments, the Department recommends approval of Xcel's proposal or of an alternative offered by the Department. The Department is available to answer any questions that the Commission may have in this matter.

Sincerely,

/s/ LAURA B. OTIS  
Rates Analyst

LBO/lt  
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE  
MINNESOTA DEPARTMENT OF COMMERCE  
DIVISION OF ENERGY RESOURCES

DOCKET No. G002/M-14-583

**I. BACKGROUND**

On May 13, 1994, the Minnesota Public Utilities Commission (Commission) approved a request from Northern States Power Company, currently d/b/a as Xcel Energy, (Xcel or the Company) to add a New Area Surcharge Rider (NAS Rider) to its tariff.<sup>1</sup> Xcel's New Area Surcharge Rider enables the Company to extend service into a new area that would be uneconomic to serve at tariffed rates. The most recent version of this tariff was approved by the Commission in its December 6, 2010 Order in Docket No. G002/GR-09-1153.

On July 9, 2014, Xcel filed a petition for approval of three New Area Surcharge Riders for the cities of Barnesville, Pillager, and Holdingford and surrounding areas (Petition). In all, the new areas Xcel proposes to serve are:

- Barnesville
  - Elkton Township;
  - Humboldt Township;
  - Riverton Township;
  - Skree Township;
  - Hawley Township;
- Pillager
  - Sylvan Township;
- Holdingford
  - Opole Populated Place;
  - Holding Township; and
  - Brockway Township

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<sup>1</sup> Docket No. G-002/M-94-156.

Xcel requested that the Commission approve the Petition by October 1, 2014 with an effective date of November 1, 2014. The Company indicated that approval on or before these dates would allow Xcel to provide natural gas service to the communities of Barnesville, Pillager, and Holdingford beginning with the 2014-2015 heating season. The Cities of Barnesville and Holdingford appear to support Xcel's request for prompt action by the Commission in this matter, as evidenced by letters submitted in support of Xcel's transportation agreements to serve those communities under the proposed NAS Riders.<sup>2 3</sup>

## II. THE DEPARTMENT'S ANALYSIS

Minnesota Statute §216B.16 subd. 1<sup>4</sup> requires the Company to provide a 60-day notice to the Commission of any proposed tariff change. Minnesota Rules 7829.0100<sup>5</sup> requires the Company to make a miscellaneous rate change filing for any proposed tariff change where no determination of Xcel's general revenue requirement is necessary, including any request for establishing New Area Surcharge Riders. The methodology for calculating a NAS Rider is outlined in Section 5 of the Company's Minnesota Gas Rate Book. The relevant tariff sheets were included with the Petition as Attachments A and B.

Under its current tariff, Xcel may request permission to initiate a NAS Rider for a period of up to 15 years in areas that have not previously been served by the company. If the Company's costs are fully recovered before 15 years have passed, the Company will end the surcharge early. Xcel cannot collect remaining costs, if they exist, at the end of 15 years; all risk of under recovery is borne by the Company's shareholders. The tariff states that the new area surcharge revenue will be treated as a contribution in aid of construction (CIAC) for accounting purposes. Thus, rate base is reduced by the CIAC collected.

The NAS Rider described in Xcel's tariff depends on a calculation of the present value of the project's revenue deficiency (or excess) over the life of the project. If this value is at or near \$0, then the model indicates that the project is self-supporting and that the customer surcharge is at the proper amount. Several assumptions and calculations are used to calculate the net present value of the revenue deficiency, some of which are discussed below.

For the cities of Barnesville and Holdingford, Xcel has negotiated contracts for service from existing pipelines owned by Greater Minnesota Transmission, LLC (GMT) for Barnesville and Greater Minnesota Gas (GMG) for Holdingford. The Company proposes to recover the costs associated with these contracts through the NAS Riders assessed to customers in those communities. As discussed below, the Department has reservations about using the NAS mechanism to fund demand charges, such as those from resulting from the GMT and GMG contracts and recommends an alternative for the Commission to consider.<sup>6</sup>

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<sup>2</sup> See Attachments 1 and 2.

<sup>3</sup> Docket Nos. PL6580,G002/M-14-386 and G022/M-14-342.

<sup>4</sup> Rate Hearings: Rate Change; Procedure; Hearing.

<sup>5</sup> Utility Proceeding, Practice, Procedure: Definitions.

<sup>6</sup> The contracts include charges for demand (aka capacity or transportation) and demand-related costs.

A. XCEL'S PROPOSAL

1. Barnesville NAS Rider

The Department reviewed Xcel's filing as it pertains to this rider and concludes that Xcel has generally complied with Commission rules and its NAS Rider. The Company proposed the following monthly NAS Rider rates in the city of Barnesville:

**Table 1: Proposed Barnesville NAS Rates**

Class	Rate
Residential	\$24.99
Small Commercial Firm	\$34.99
Large Commercial Firm	\$395.00
Commercial Demand Billed	\$1,150.00
Interruptible	\$1,150.00
Firm Transportation	\$1,150.00
Interruptible Transportation	\$1,150.00

The Department notes one area where the Company's petition should be adjusted, as noted below under Alternative to NAS Rider. However, since time is of the essence, the Department also provides the following comments for consideration if the Commission approves NAS riders for funding of the Barnesville (and Holdingford) extensions.

The proposed Barnesville NAS Rider is significantly higher than the NAS Riders proposed for Pillager and Holdingford. This difference is almost entirely due to the cost of a transportation agreement with GMT<sup>7</sup>, which includes construction of a new 36-mile transmission line. In order to possibly reduce the monthly NAS amount, the Department requested that Xcel provide alternative calculations that project the NAS rate assuming the Company were allowed to collect the surcharge for up to 20 years. Xcel provided the calculations, which showed that extending the surcharge period had little to no effect on the monthly rates paid by ratepayers.<sup>8</sup> The reason for that result was due to the constant demand charges running through the model. As a result, the Department does not recommend extending the length of time the surcharge is in effect.

With the proposed rates, Xcel expects the present value of the revenue deficiency to be negative \$96,639 (*i.e.*, a revenue excess of \$96,639). Because the model predicts a revenue excess and because the proposed NAS charges for Barnesville customers are high, the Department recommends reducing the residential surcharge to \$23.99, a reduction of \$1 per month if the Commission decides to approve the Barnesville NAS. This change results in the present value of the revenue deficiency increasing to negative \$15,085, significantly closer to the \$0 target.

<sup>7</sup> Docket No. PL6580,G002/M-14-386.

<sup>8</sup> See Attachment 3.

## 2. Pillager and Holdingford NAS Riders

Xcel has proposed implementing the following NAS Rates in Pillager and Holdingford:

**Table 2: Proposed Pillager and Holdingford NAS Rates**

<b>Class</b>	<b>Rate (Pillager)</b>	<b>Rate (Holdingford)</b>
Residential	\$13.50	\$14.45
Small Commercial Firm	\$20.00	\$35.00
Large Commercial Firm	\$200.00	\$315.00
Commercial Demand Billed	\$1,000.00	\$700.00
Interruptible	\$1,000.00	\$700.00
Firm Transportation	\$1,000.00	\$700.00
Interruptible Transportation	\$1,000.00	\$700.00

The Department reviewed Xcel's filing as it pertains to these riders and concludes that Xcel has complied with Commission rules and its NAS Rider. Additionally, the Department reviewed the calculation of the revenue requirements and present value of the revenue deficiencies for Pillager and Holdingford. The resulting present values of the revenue deficiencies are negative \$2,860 and negative \$7,098 respectively.

As no demand charges are included in Xcel's calculation of the Pillager NAS, the Department recommends approval of Xcel's Petition for a NAS in that community. However, demand charges are included in Xcel's calculation of the Holdingford NAS, which is an issue discussed in the Alternative to NAS Rider section below in these comments. If the Commission decides that the NAS is the best mechanism for funding the extension of natural gas service to the community of Holdingford, the Department recommends no revisions to Xcel's filed model or surcharge amounts for Pillager and Holdingford. As discussed below, the Department submits an alternative Purchased Gas Adjustment (PGA) method for consideration.

## 3. NAS Rider Cost of Capital

The Company's tariff states that the debt and equity return components of the revenue requirements model should be calculated using the costs and weights of debt and equity established in the company's most recent general rate proceeding. The Company's most recent natural gas general rate case had a 2010 test year and a pre-tax weighted cost of capital of 8.28%.

Because the Company's proposal would result in lower NAS surcharges, the Department appreciates that the Company proposed using an alternate cost of capital in the revenue requirement calculation in acknowledgement of changes to the economy since 2010. Specifically, Xcel suggested using the costs and weights of debt and equity proposed in its current electric rate case,<sup>9</sup> with a pre-tax weighted cost of capital of 7.56%. The Department offers the following observations about this proposal:

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<sup>9</sup> Docket No. E002/GR-13-868.

- 1) The Company's proposal of using the cost of capital proposed in the 2014 electric rate case would result in lower surcharges for ratepayers than reliance on the cost of capital set in the company's most recent natural gas general rate case.
- 2) In general, it may not be appropriate to use a cost of capital that was calculated for Xcel's electric service in a natural gas proceeding; however, Xcel updated only the debt component of its capital structure. The debt component of Xcel's capital structure is more likely to be similar between the gas and electric sectors of Xcel's company.
- 3) Another reason why it was appropriate that Xcel updated only the debt portion of its cost of capital is because that is the only aspect of Xcel's cost of capital that has not been disputed in Xcel's current rate case.
- 4) Generally, the Department does not support updating one cost without updating others; however, in this case, the Department concludes that Xcel's proposal is reasonable.<sup>10</sup>

Minnesota Statutes §216B.03 requires the Commission to set rates in a manner in which "[a]ny doubt as to reasonableness should be resolved in favor of the consumer." As a result, the Department would support *in this case* use of the updated cost of capital proposed by Xcel in Table 2 of the petition because Xcel's proposal would benefit ratepayers since the proposed electric pre-tax weighted cost of capital is lower than the same figure in the most recent natural gas general rate case. However, the Department notes that we would not necessarily support such a proposal in the future due to the concerns noted in items 2 and 4 above.

#### *4. GMT and GMG Costs After Expiration of the NAS Riders*

Xcel states that at the end of the Barnesville and Holdingford riders, costs related to the GMT and GMG contracts will be moved into the PGA via the Contract Demand Entitlement annual filing.<sup>11</sup> The Department takes no position on this proposal at this time and will review Xcel's specific proposal regarding this issue after expiration of the contracts.

#### *5. Inclusion of Demand Payments in the NAS Rider*

The Department is concerned that inclusion of the demand costs from the GMT and GMG contracts in the NAS Rider may not be appropriate. First, Xcel has included these costs in the Operating Expenses column (column 14) of its filing. The Company's tariff provides the following information regarding allowable operating expenses:

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<sup>10</sup> The Department also examined whether it would be appropriate to use the cost of debt from the Company's most recently approved rate case, Docket No. E002/GR-12-961. However, that approach would result in a slightly higher cost of capital. Given that no party has disputed the debt component of Xcel's cost of capital in the current rate case, the Department concludes that Xcel's proposal is reasonable.

<sup>11</sup> Petition, pages 7-8.

Operating Expenses. Operating expenses includes provisions for transmission and distribution system operation and maintenance expenses, and provisions to cover customer accounting expenses such as meter reading, customer accounting and collection. Property taxes are also included as a component of operating expenses. All components of operating expense herein are driven by the amount of plant in service additions (Column 3).

There is no mention of including demand costs in this category of expenses. This reading of the tariff is consistent with historical use of the NAS. Second, the Department is unaware of any other instance in which the NAS rider was used to pay for demand charges.

While the Department agrees with Xcel that it is fair to assign the costs of the GMT and GMG contracts to the customers in Barnesville and Holdingford who are causing them, there is an alternative to using the NAS Rider model to accomplish this goal.

#### *B. ALTERNATIVE TO THE NAS RIDER*

As discussed above, the Department has concerns with Xcel's proposal to fund demand charges incurred through the GMT and GMG contracts negotiated to allow introduction of natural gas service in the cities of Barnesville and Holdingford.<sup>12</sup> The Department proposes another avenue that is consistent with the way that pipeline demand costs are usually charged, *i.e.*, through the PGA mechanism.

Specifically, the Department recommends assigning the demand costs incurred on behalf of customers in Barnesville and Holdingford to those customers through a specific PGA for these communities, as a volumetric charge. For example, this alternative may be achieved through a line item charge added to Xcel's existing PGA for those customers including non-firm customers.<sup>13</sup>

This proposal has several benefits for ratepayers, including:

- No need for a NAS Rider for these communities, as the distribution costs incurred by Xcel are economic<sup>14</sup> and would be socialized with system costs in Xcel's next general gas rate case;
- Customers in Barnesville and Holdingford would not be required to directly fund Xcel's costs of capital incurred by constructing distribution infrastructure;
- Significantly lower average monthly charge to residential customers than under the proposed NAS Riders;<sup>15</sup>

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<sup>12</sup> The Department does not propose an alternative to the NAS for the city of Pillager since no demand costs are included in the NAS calculations for Pillager.

<sup>13</sup> Usually, only firm customers are charged demand costs. However, in this particular instance, all new customers should be charged the demand costs because both firm and interruptible customers benefit from the GMT and GMG contracts and thus all should bear the costs.

<sup>14</sup> See Attachments 4 and 5, which show the NAS calculations excluding the GMT and GMG contract costs.

- The PGA true-up mechanism would prevent over or under collection of funding for the GMT and GMG contracts;
- The NAS would not be employed for a purpose for which it was not intended;
- The risk of under recovery of Xcel’s distribution costs would be removed from ratepayers; and
- Residential customers would not subsidize commercial and industrial customers<sup>16</sup>

Based on Xcel’s estimated customer additions and per-customer demand projections, the Department estimates that average monthly bill impacts of the volumetric charges to customers over the 15-year period would be as follows:

**Table 3<sup>17</sup>: Estimated Monthly<sup>18</sup> Customer Charges  
(Volumetric Cost Recovery)**

<b>Class</b>	<b>Barnesville</b>	<b>Holdingsford</b>
Residential	\$19.71	\$12.37
Small Commercial Firm	\$60.69	\$38.72
Large Commercial Firm	\$728.30	\$464.69
Commercial Demand Billed	\$2,591.00	\$1,417.31
Interruptible	\$2,023.07	\$611.42
Firm Transportation	\$2,030.42	\$0.00
Interruptible Transportation	\$19.71	\$12.37

The Department recognizes that there may be many other benefits and costs to this proposal and expects that Xcel will describe any further benefits or downsides to the PGA methodology in its Reply Comments.

### III. THE DEPARTMENT’S RECOMMENDATIONS

The Department reviewed Xcel Energy’s Petition for approval of a New Area Surcharge in the cities of Barnesville, Pillager, and Holdingford and concludes that Xcel’s proposal to begin charging a NAS in the city of Pillager is reasonable and complies with Commission Rules and the Company’s tariff.

While the Department does not oppose Xcel’s NAS proposals for the cities of Barnesville and Holdingford, the Department has a concern that including demand costs incurred as a result of the contracts with GMT and GMG in NAS riders may not be appropriate. The Department suggests a PGA methodology as a possible alternative to Xcel’s proposal.

<sup>15</sup> See Table 3.

<sup>16</sup> Under a volumetric charge, residential rates would decrease while commercial and industrial rates increase. This suggests that, under the Company’s proposal, residential customers may be subsidizing commercial and industrial customers.

<sup>17</sup> Attachments 4 and 5.

<sup>18</sup> As this would be a volumetric charge, these numbers will fluctuate. The Department expects them to be lower in the summer but higher in the winter.



After review of the Company's Petition, the Department:

- recommends that the Commission approve the request for approval of a NAS in the city of Pillager;
- recommends that the Commission approve either:
  - Xcel's proposed NAS surcharges for Barnesville and Holdingford or, preferably,
  - The Department's recommended alternative of avoiding use of NAS surcharges for these cities and areas and instead use a PGA surcharge for the higher demand costs.

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## 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. G002/M-14-583**

Dated this **8<sup>th</sup>** day of **August 2014**

**/s/Sharon Ferguson**

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