Xcel Energy

414 Nicollet Mall
Minneapolis, MN 55401

August 18, 2014

—Via Electronic Filing—

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

RE: REPLY COMMENTS
REQUEST FOR NEW AREA SURCHARGE
DOCKET NO. G002/M-14-583

Dear Dr. Haar:

Northern States Power Company, doing business as Xcel Energy, submits to the Minnesota Public Utilities Commission this Reply to the August 8, 2014 Comments of the Minnesota Department of Commerce – Division of Energy Resources on our Petition for Approval of New Area Surcharge (NAS) Riders for the cities of Barnesville, Holdingford, Pillager, and surrounding areas.

Pursuant to Minn. Stat. §216.17, subd. 3, we have electronically filed this document with the Minnesota Public Utilities Commission, and copies have been served on all parties on the attached service list. Please contact Pamela Gibbs at pamela.k.gibbs@xcelenergy.com or (612) 330-2889 or me at paul.lehman@xcelenergy.com or (612) 330-7529 if you have any questions regarding this filing.

Sincerely,

/s/

PAUL J LEHMAN
MANAGER
REGULATORY COMPLIANCE AND FILINGS

Enclosures
c: Service List

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	Chair
David Boyd	Commissioner
Nancy Lange	Commissioner
Dan Lipschultz	Commissioner
Betsy Wergin	Commissioner

IN THE MATTER OF THE PETITION OF NORTHERN STATES POWER COMPANY FOR APPROVAL OF NEW AREA SURCHARGE RIDERS FOR BARNESVILLE, HOLDINGFORD, AND PILLAGER

DOCKET NO. G002/M-14-583

REPLY COMMENTS

INTRODUCTION

Northern States Power Company, doing business as Xcel Energy, submits to the Minnesota Public Utilities Commission this Reply to the August 8, 2014 Comments of the Minnesota Department of Commerce – Division of Energy Resources on our Petition for Approval of New Area Surcharge (NAS) Riders for the cities of Barnesville, Holdingford, Pillager, and surrounding areas.

We thank the Department for their thorough review of our petition. We appreciate their support of our Pillager NAS Rider rates and acceptance, solely for this instance, of our proposal to update our weighted cost of capital.

Regarding our requests for NAS Riders for Barnesville and Holdingford, in their comments, the Department questioned whether the Greater Minnesota Transmission (GMT) and Greater Minnesota Gas (GMG) transmission agreement expenses (to serve Barnesville and Holdingford, respectively) were qualifying expenses as defined in our NAS Rider tariff. Due to their reservation about using the NAS mechanism to fund demand charges, the Department recommended the creation of community-specific PGA adders for the expenses of these contracts, as an alternative to the NAS rider.

While we understand the concerns of the Department, we continue to support our NAS Rider rates as filed with the exception of agreeing to change the Barnesville residential class rate to $23.99, as recommended by the Department. In responding to the Department's concerns with our proposal, we also have a number of concerns with the alternate proposal that we believe should be considered when reviewing this matter. In our reply below, we:

- Discuss the basis for our opinion on the intention of the existing NAS tariff language,
- Accept changing the Barnesville residential class surcharge,
- Provide mechanism details and bill comparisons, and
- Discuss our concerns with the alternate proposal.

REPLY

A. Expenses Are Consistent with the Tariff

As indicated in the Department's comments, the language in question on Section 5, Sheet 49 of our Minnesota Gas Rate Book – MPUC No. 2 is as follows:

> *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).

We believe the expenses for the transmission agreements with GMT & GMG are "distribution system operation and maintenance expenses." The alternative to entering into these agreements was for us to build, own, and maintain distribution pipeline from our existing system to these communities. That option was determined to be more expensive and the larger scope would have delayed the in-service of the projects frustrating the request for natural gas service by these communities since building more than 40 more miles of pipelines (and the associated engineering, design, permitting, and construction) would not likely have been accomplished in time to meet the customers' needs. When the tariff language was written, it was unlikely that an extension structure of the type proposed here had been specifically contemplated. None the less, we believe the intent of the tariff does cover the types of costs associated with the arrangement we have made with GMT & GMG.

We acknowledge that the last sentence of the Operating Expenses paragraph could be considered problematic as it is overly proscriptive. To clarify this, we propose the following modification to the language would resolve any uncertainty:

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 c~~Components of operating expense herein are driven by the amount of plant in service additions <u>and other operating and maintenance expenses, including capacity entitlements if contracted only for purposes of extending service, needed to extend service</u> (Column 3).

We believe this clarification of the intent of the NAS tariff is a better solution as compared to creating new community-specific PGA adders as identified by the Department in their alternative proposal. We discuss this further below.

If the Commission believes other modifications to the tariff language are needed, we are willing to make such modifications.

B. *Lower Barnesville Residential Class Surcharge by $1*

If the Commission were to accept our NAS Riders as filed, the Department recommended that the Barnesville residential class surcharge be lowered $1.00 from $24.99 to $23.99. We are willing to make this change and agree with the Department's analysis of the revenue sufficiencies under both rate levels.

C. Alternate Proposal - Mechanism Structure and Bill Comparisons

While we do not believe the alternate proposal is necessary and have a numbers of concerns about unintended effects and additional administration that would come with community-specific PGA adders, we have given thought to how the mechanisms would function and have done analysis on the effect to customers. We only discuss the mechanics of the PGA adders in the section; our concerns with the proposal will be addressed in the next section.

As mentioned in the Department's comments, if the expenses for the GMT & GMG agreements were removed from cost justification calculations, the extensions would cost justify. Under the alternate proposal, there would be no NAS Rider rates for Barnesville and Holdingford. Instead there would be community-specific PGA adders for Barnesville and Holdingford that would be in place until final rates go into place with the Company's next general natural gas rate case.

Community-specific PGA adders would be calculated by first calculating the annual expenses. This is done by adding the annual demand costs from the agreement to the sum of the annual sales for the area multiplied by the volumetric rate for the commodity portion of the agreement. The annual expenses are then divided by the annual sales to arrive at the contract cost per therm rate. A true-up of expenses to revenues would be conducted annually as a part of the AAA/True-up filed by September 1. This true-up factor would be added to the contract cost per therm rate to arrive at the total community-specific PGA adder for the year. This calculation is illustrated on Schedule A.

The annual bill effects to customer classes from this alternative proposal are shown below. These calculations are based on average usage for a class. If a customer uses more or less, their effect would be different. If one divides the alternate proposal annual bills by 12, they are very close to the estimated monthly customer charges reported in Table 3 of the Department's comments.

Table 1: Barnesville Annual Bill Effects

Class	2015 Avg UPC (thm)	Original Proposal	Alternate Proposal	Alt. Proposal More(Less)Than Orig. Proposal	
Residential	856	$288	$237	($51)	-18%
Sm Commercial	2,750	$420	$762	$342	81%
Lg Commercial	33,000	$4,740	$9,143	$4,403	93%
Demand Billed	117,400	$13,800	$32,528	$18,728	136%
Sm Interruptible	91,667	$13,800	$25,398	$11,598	84%
Lg Interruptible	92,000	$13,800	$25,490	$11,690	85%

Table 2: Holdingford Annual Bill Effects

Class	2015 Avg UPC (thm)	Original Proposal	Alternate Proposal	Alt. Proposal More(Less)Than Orig. Proposal	
Residential	878	$173	$149	($25)	-14%
Sm Commercial	2,750	$420	$466	$46	11%
Lg Commercial	33,000	$3,780	$5,592	$1,812	48%
Demand Billed	100,650	$8,400	$17,054	$8,654	103%
Sm Interruptible	43,420	$8,400	$7,357	($1,043)	-12%

*There are no Large Interruptible customers in the forecasted sales for Holdingford.

The Department suggested calculating the community-specific PGA adders monthly. Because of forecast concerns discussed below and extra work involved for minimal gain, if the Department's alternative proposal is ordered by the Commission, we believe an annual rate is preferable.

D. Concerns with the Alternate Proposal

We agree with the Department that community-specific PGA adders would eliminate the over or under recovery of GMT & GMG contract expenses. This would be a benefit to both customers and the Company. However, we think other issues outweigh this benefit. Our major areas of concern discussed below are:

- Cost distribution to class
- Customer confusion
- Administrative concerns
- Charging demand costs to interruptible customers
- Under-recovery risk

1. Cost Distribution to Class

In footnote 16 of their comments, the Department said, "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." We agree that switching from a per-customer per-month charge to a volumetric charge may lower residential customers' rates and increase commercial and industrial customers' rates (depending on the level of fixed charges by class). However, we don't agree that this change is indicative of one class subsidizing another. There are many ways to allocate costs to customer classes. Some of the most frequently used allocators are customer count, sales, design day, and rate base (which uses a combination of several allocation methods). The cost of extending service to these new towns is very dependent on the numbers of customers and, therefore, collection through a fixed monthly charge is appropriate. In addition, a fixed monthly charge should lead to more stable and consistent charges and recovery since they are not tied to sales which vary with weather.

When deciding the amounts of the NAS Rider rates, we also have to take into consideration what the market will bear. Before filing, we discussed the NAS Rider rates with community leaders and customers. Commercial and industrial customers indicated that rates we were proposing were acceptable, but that higher rates would be less acceptable and if the rates got too high, they would not switch to our natural gas service. As Tables 1 and 2 show, the charges to some classes under the alternate proposal will be nearly doubled as compared to the charges under our use of the NAS proposal. If commercial and industrial customers decided not to join the system, residential customers will be responsible for more of the agreement expenses and would likely wipe out any potential savings from the alternative proposal.

2. Customer confusion

As mentioned above, the NAS Rider rates filed in our petition have already been communicated to customers in the Barnesville and Holdingford areas. Customers have agreed to take service under the belief that the actual NAS Rider rates charged would be close to those rates quoted to them. Also, their additional cost associated with the NAS Rider rate has always been described to them as a flat per month charge. Significantly changing the amount of the charge and changing it to a volumetric charge could cause confusion.

3. Administrative Concerns

There are several aspects of the administration of community-specific PGA adders that cause concerned. Of most concern is that data is not available at the level of granularity that would be required to achieve accuracy and assure parity between customers. We are also concerned about the administrative burden of setting up and tracking two new PGA adders. These administrative concerns are discussed below under the topics of:

- Effects of grain drying customers,
- Forecast, and
- Administration of two new true-ups.

- <u>Effects of Grain Drying Customers:</u> Both extension projects have a few grain-drying customers that will be on the systems. Grain dryers only use gas in the fall and only when weather conditions have made mechanical grain drying necessary. This means there will be years when these customers have no usage and, under the alternate proposal, during those years they would not pay anything towards the GMT & GMG agreement expenses. Assuming one community-specific PGA adder rate for each area, in the year following a non-grain-drying year, the under recovery will be distributed across all the customers in the community not just the classes with the grain-drying customers.

  We could consider class-specific community-specific PGA adder rates per area, but the extra calculations to have 12 new true-up factors and the potential billing issues for such a small population per class would increase concerns about accuracy and administrative burden. In the background there would have to be more billing codes set up and more tracking lines added to accounting spreadsheets. If we lose all customers from a particular rate class (which wouldn't be unusual when rate classes only have one or two customers), we would have to change our process to redistribute that class' over/under recovery to other classes. As detailed below, we do not expect to have regularly updated forecasts of customer usage. If we were to add a large customer to a large commercial or industrial class, the true-up allocation to class would not change to compensate for that (because it is based on forecasted sales) and that class would be responsible for less than its fair share of true-up expenses.

Grain dryers do have minimum burn agreements with the Company that can be trued up annually or added to the end of their contract. The method used to true up the minimum burn would not trigger the community-specific PGA adder as the PGA adder would be billed on actual usage.

- Forecast: The Company does not forecast customer usage at a city level. Regular forecasts are done by state and class. Exceptions have been made for special projects for large metro areas (such as Minneapolis and Boulder municipalization investigations), but exceptions for communities the size of Barnesville and Holdingford (under 1,500 customers combined, which is about 0.3% of total Minnesota customers) for 15 years would set an unacceptable precedent. The annual forecasts filed in our petition are the only forecasts we are expecting to have for the duration of the GMT & GMG contracts. Prices would be calculated off of these forecasts.

  In footnote 18 of the Department's comments, in reference to the estimated monthly customer charges, they stated "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." We only have annual forecasts for Barnesville and Holdingford. We could calculate monthly forecasts based on the class sales patterns for all of Minnesota. But we believe there is little to be gained by calculating the factors monthly instead of annually.

- Administration of Two New True-ups: Treating the GMT & GMG contract expenses as PGA costs of gas makes them subject to the PGA rules which include an annual true-up of expenses to revenues. The Company will have to add processes to the track expenses and revenue, and will have to expand the existing annual true-up file to include additional sections for the two new community-specific PGA adders. This will add to the administrative cost associated with these agreements.

4. Charging Demand Costs to Interruptible Customers

It deserves noting that in the normal PGA process, interruptible customers are not charged for demand costs, with the exception of a few small cost types that we've been ordered by the Commission to allocate as commodity costs. As we understand the Department's community-specific PGA adder proposal, firm *and interruptible* customers in the Barnesville & Holdingford areas will be charged for the GMT & GMG demand costs. This demand cost charge to interruptible customer aspect of the community-specific PGA adder proposal is another concern.

5. Under-recovery risk

On pages 7 of their comments, the Department states that one of the benefits that the alternate proposal would have over the NAS Rider was that "the risk of under recovery of Xcel [Energy]'s distribution costs would be removed from ratepayers." We apologize that this was not clear in our petition or the tariff, but under use of the NAS Rider, the risk of under recovery is to shareholders, not ratepayers.

CONCLUSION

For these reasons, the Company continues to support our NAS Riders as filed with the exception of changing the Barnesville residential class surcharge to $23.99 and potentially modifying some tariff language.

Dated: August 18, 2014

Northern States Power Company

DERIVATION OF COMMUNITY SPECIFIC PGA ADDERS

<u>Barnesville Area</u>			<u>Annual Costs</u>
1.	Forecasted Barnesville Area Annual Therm Sales (2015 Calendar Year)	2,182,017	
2.	Greater Minnesota Transmission Demand Costs (from contract)		$430,000.00
3.	Greater Minnesota Transmission Commodity Rate (from contract)	$0.08000	
4.	<u>Greater Minnesota Transmission Commodity Costs (Line 1 x Line 3)</u>		<u>$174,561.33</u>
5.	Total GMT Costs (Line 2 + Line 4)		$604,561.33
6.	GMT $/thm (Line 5 / Line 1)		$0.27707
7.	Annual True-up $/thm (from Annual True-up)		$0.00000
8.	Total Barnesville Area PGA Adder $/thm (Line 6 + Line 7)		$0.27707
<u>Holdingford Area</u>			
9.	Forecasted Holdingford Area Annual Therm Sales (2015 Calendar Year)	1,360,340	
10.	Greater Minnesota Gas Demand Costs (from contract)		$112,147.20
11.	Greater Minnesota Gas Commodity Rate (from contract)	$0.08700	
12.	<u>Greater Minnesota Gas Commodity Costs (Line 9 x Line 11)</u>		<u>$118,349.58</u>
13.	Total GMG Costs (Line 10 + Line 12)		$230,496.78
14.	GMG $/thm (Line 13 / Line 9)		$0.16944
15.	Annual True-up $/thm (from Annual True-up)		$0.00000
16.	Total Holdingford Area PGA Adder $/thm (Line 6 + Line 7)		$0.16944

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CERTIFICATE OF SERVICE

I, SaGonna T. Thompson, hereby certify that I have this day served copies of the foregoing document on the attached list of persons.

xx by depositing a true and correct copy thereof, properly enveloped with postage paid in the United States mail at Minneapolis, Minnesota

xx electronic filing

Docket Nos. G002/M-14-583
New Area Surcharge Riders for Barnesville, Holdingford and Pillager

Dated this 18th day of August 2014

/s/
____
SaGonna T. Thompson
Regulatory Administrator