COMMERCE DEPARTMENT

January 13, 2020 **PUBLIC DOCUMENT**

Rayn Barlow
Acting Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **PUBLIC Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G002/M-19-703

Dear Mr. Wolf:

Attached are the **PUBLIC** Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matter:

> A petition submitted by Northern States Power Company (Xcel or the Company) requesting Minnesota Public Utilities Commission (Commission) approval of an extension of variances to Minnesota Rules to allow Xcel to recover the costs of financial instruments through the Purchased Gas Adjustment (PGA) clause.

The petition was filed on November 6, 2019 by:

> Lisa Petersen
> Manager, Regulatory Analysis
> Xcel Energy
> 414 Nicollet Mall, 401 - 7th Floor Minneapolis, Minnesota 55401

The Department recommends that the Commission **approve** Xcel's petition.

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

Sincerely,

/s/ JOHN KUNDERT
Financial Analyst

JK/ar
Attachment

COMMERCE DEPARTMENT

Before the Minnesota Public Utilities Commission

PUBLIC Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. G002/M-19-703

I. SUMMARY OF PROPOSAL

Pursuant to Minnesota Statute §216B.16, subdivision 7, and Minnesota Rule (Minn. R.) 7829.3200, Northern States Power Company d/b/a Xcel Energy (Xcel or the Company) has requested that the Minnesota Public Utilities Commission (Commission) grant an extension of the variance to Minnesota Rules 7825.2400, 7825.2500, and 7825.2700 (the Purchased Gas Adjustment or PGA rules) to allow Xcel to continue to recover costs associated with financial instruments used to manage price risks in the procurement of natural gas supplies for its Minnesota customers (Petition).

Specifically, Xcel requested that the Commission approve an extension to its current variance through June 30, 2024. Xcel proposed to continue recording the purchase cost of various financial hedging instruments (*i.e.,* call options and costless collars) used to hedge approximately 25 percent of its winter requirements to Federal Energy Regulatory Commission (FERC) Account No. 804 and to continue providing the reports required in Docket Nos. G002/M-01-1336 and G002/M-03-1627.[1] Xcel also requested that the Commission modify the variance to allow an increase in the existing annual cap for financial hedging instruments to **[TRADE SECRET DATA HAS BEEN EXCISED]** dollars from **[TRADE SECRET DATA HAS BEEN EXCISED]**.[2]

II. THE DEPARTMENT'S ANALYSIS

A. OVERVIEW

The question before the Commission is whether to allow Xcel to recover costs through its PGA of hedging natural gas costs for its gas department's sales customers or to discontinue the program. Under existing PGA rules, utilities like Xcel cannot recover the cost of financial instruments used to hedge price risk through the PGA. Specifically, the cost of purchased natural gas as defined by Minn. R. 7825.2400 only includes the cost for delivered physical natural gas. Consequently, Xcel must obtain a variance to these rules to recover the costs of hedging using financial instruments. Without recovery of those costs, Xcel states that the Company "will suspend our hedging program for the 2020-2021 season."[3]

[1] These reporting requirements were also included in Xcel's most recent hedging request in Docket No. G002/M-16-88.
[2] The Department requests that Xcel provide justification in its Reply Comments for continuing to treat this figure as trade secret.
[3] Petition, page 2.

The Department notes the following. The Company earns no return on gas costs and passes changes in the cost of gas directly to ratepayers. Hence, there is price risk associated with Xcel's gas supply portfolio for its sales customers. Hedging is a commonly accepted tool for managing commodity price risk that, if done correctly, can cost-effectively minimize some of that price risk. Thus, the Department concludes that it is appropriate to allow Xcel to continue to recover the costs of financial hedging in its purchased gas adjustment, so long as the hedging costs are reasonable.[4]

B. APPROPRIATENESS OF HEDGING UNDER CURRENT MARKET CONDITIONS

At the time of these comments, the price of natural gas remains low relative to historical averages. These low prices are the result of a large increase in the supply of natural gas due to the widespread use of fracking. Given the lower pricing, it is prudent to ask if hedging is still appropriate at current price levels.

1. Xcel Discussion in Support of Hedging

Xcel stated that the goal of its hedging strategy is to mitigate sharp increases in natural gas prices. The Company acknowledged that the final cost of its hedging efforts may be higher than the cost, had it purchased all gas supply in the monthly or daily spot market. However, as noted in previous hedging variance dockets, incurring hedging losses is not necessarily a detriment to customers, as the main purpose of hedging is to mitigate the effects of significant gas price increases on sales customers' rates and bills. The goal of mitigating increases in natural gas prices is constant regardless of whether the starting point for natural gas prices is higher, as in 2007 or 2008, or lower, as has been the case recently.

Xcel stated that although gas prices are at low levels currently, the possibility of significant price fluctuations remains. The Company referenced two factors that affect the wholesale natural gas market. The first factor is the potential for increased electric generation usage due to sustained low gas prices and the retirement of existing coal facilities. Thus, unexpected events in the electricity market can thus affect the use of natural gas to generate electricity. The second factor is the potential implementation of a variety of environmental regulations (*e.g.*, regulations on hydraulic fracking). Any combination of these or other factors could combine to modify the current supply and demand imbalance. This uncertain supply and demand picture underscores the need for continued efforts to mitigate price volatility. Therefore, the goals of the Company's efforts to mitigate gas prices will be similar to those of previous year's plans, including its standard goal of hedging 50 percent of its supply portfolio via physical or financial hedges.

[4] Xcel's gas supply portfolio includes an additional type of hedging beyond the financial hedge discussed in these comments. Natural gas purchased during the non-heating season and held in storage for use during the heating season acts as a physical hedge.

2. Department Discussion on Hedging

The natural gas market has changed dramatically due to the increase in supply resulting from shale gas. Natural gas prices have been low relative to historical averages for the past several years. However, despite recent stable natural gas prices, the Department shares similar concerns with Xcel regarding future prices. There is still considerable uncertainty regarding how government and/or market forces could disrupt prices, exposing Xcel's ratepayers to risks of paying higher prices.

Increased demand from commercial and industrial customers, including electric generators, could exert upward pressure on prices, as could an increase in exports. In addition, low natural gas pricing for the country as a whole does not take into account regional differences and constraints in the delivery of natural gas.

Given the numerous supply and demand-side factors that influence the price of natural gas, and continued uncertainty existing for Minnesota natural gas consumers, the Department continues to conclude that financial hedging should be available as a tool for utilities to manage and diversify gas costs.

C. XCEL'S PROPOSAL

1. Increasing the Existing Annual Expenditure Cap

Xcel proposed to increase the existing annual limit (cap) on the level of the costs of financial instruments that Xcel may recover through the PGA. Specifically, the Company proposed to increase the annual limit from **[TRADE SECRET DATA HAS BEEN EXCISED]** per year, to **[TRADE SECRET DATA HAS BEEN EXCISED]** dollars per year. The Company explained that the proposed increase is based on the calculation approved in Xcel's most recent request for a variance.[5] This calculation identifies the Northern Natural Gas's (NNG) Ventura At-the-Money call option premium for November 2019 through March 2020 of **[TRADE SECRET DATA HAS BEEN EXCISED]** per MMBtu. Multiplying this call option times the proposed financial hedge quantity of 13.59 Bcf yields Xcel's proposed annual limit.

Xcel also noted that the proposed cap was calculated using the lowest of three third-party bids received for At-the-Money call premiums and that the proposed annual cap is fixed for the duration of the variance.

The Department was concerned that the proposed annual cap for hedging increased by approximately **[TRADE SECRET DATA HAS BEEN EXCISED]** percent between 2016 and 2020. Department Information Request No. 1 asked for support for the Company's proposed annual cap. Xcel provided the information related to its bid process in its response. The Company also noted: "Option premiums have gone up (so too has the cost of hedging) since the approval of Docket No. G002/M-16-88 because

[5] See Docket No. G002/M-16-88.

of the significant volatility experienced last year as a result of a cold start to the winter in October and November, coupled with low national storage inventories."[6]

The Department is also cognizant that this proposed annual cap is not a fixed expenditure that Xcel will make on ratepayers behalf for each of the next four years. Rather, it is the largest amount Xcel could potentially spend in its effort to hedge the price risk associated with its supply portfolio. Department Information Request No. 2 asked the Company to update a table summarizing its annual hedged volumes and hedging costs on a per dekatherm (Dth.) basis.[7] We were interested in seeing what Xcel's actual hedging costs have been over the past several years both in total and on a cost per Dth basis. Table 1 below includes that information.

The information in Table 1 from 2016 on is favorable for ratepayers. The hedging costs allocated to the Minnesota jurisdiction for the 2016-2017, 2017-2018 and 2018-2019 heating seasons are well below the historical average hedging costs for the 2007 through 2019 period.[8] The hedging cost per dekatherm of gas delivered also demonstrates a similar relationship to the historical average over the past 12 years.[9]

Table 1 – Hedging Program Historical Information

Hedge Year	NSPM - Hedged Volumes (Dth)	MN Jurisdiction Actual Costs*	MN Jurisdiction Cost Excluding Hedging**	Hedging Cost - MN Jurisdiction	MN Hedge Cost/Dth Delivered ***	MN Hedging Costs as % of Total Annual
2007-2008	12,790,000	$ 576,571,051	$ 566,843,252	$ 9,727,799	$ 0.13	1.69%
2008-2009	13,960,000	$ 458,654,791	$ 443,825,881	$14,828,910	$ 0.21	3.23%
2009-2010	14,675,000	$ 312,671,414	$ 311,675,493	$ 995,921	$ 0.01	0.32%
2010-2011	14,235,000	$ 325,282,768	$ 308,084,365	$17,198,404	$ 0.24	5.29%
2011-2012	14,310,000	$ 225,568,004	$ 205,124,054	$20,443,950	$ 0.35	9.06%
2012-2013	4,530,000	$ 251,190,939	$ 251,190,939	$ -	$ -	0.00%
2013-2014	4,530,000	$ 430,082,253	$ 438,254,092	$ (8,171,840)	$ (0.10)	-1.90%
2014-2015	13,590,000	$ 293,231,053	$ 289,910,496	$ 3,320,557	$ 0.05	1.13%
2015-2016	11,850,000	$ 165,547,394	$ 160,868,283	$ 4,679,112	$ 0.07	2.83%
2016-2017	13,590,000	$ 204,075,061	$ 202,972,529	$ 1,102,532	$ 0.02	0.54%
2017-2018	13,590,000	$ 227,286,024	$ 226,926,737	$ 359,287	$ -	0.16%
2018-2019 Total Average	**[TRADE SECRET DATA HAS BEEN EXCISED]**					

[6] Attachment 1 contains a copy of Xcel's response to Department Information Request No. 1.
[7] Attachment 2 contains a copy of Xcel's response to Department Information Request No. 2.
[8] They are $1,102,532, $359,287 and **[TRADE SECRET DATA HAS BEEN EXCISED]** as compared to an average hedging cost for the entire period of **[TRADE SECRET DATA HAS BEEN EXCISED].**
[9] They are $0.02, $0.00 and **[TRADE SECRET DATA HAS BEEN EXCISED]** per Dth. as compared to an average cost per Dth. for the entire period of **[TRADE SECRET DATA HAS BEEN EXCISED].**

*These costs consist of gas commodity and peak shaving (LNG, propane) commodity supply costs. These values do not include any demand charges associated with gas supply, transportation or storage.
**These costs were calculated by subtracting the Minnesota state allocated jurisdictional share of hedging costs from the values in the "MN State Actual Costs" column.
***Cost per Dth for all volumes delivered, not the cost per Dth for the volume hedged.

Table 2 provides a different perspective on this information. In this table, the Department unitized the hedging cost per Dth hedged. The information from 2016 onward in this table is also favorable for ratepayers. The actual hedging costs per dekatherm by year is significantly lower than the historical average cost for the past twelve years.[10]

Table 2 – Historical Hedging Cost per Dth Hedged

Hedge Year	NSPM - Hedged Volumes (Dth)	Hedging Cost - MN Jurisdiction	MN Hedge Cost/Dth Hedged
2007-2008	12,790,000	$ 9,727,799	$ 0.76
2008-2009	13,960,000	$14,828,910	$ 1.06
2009-2010	14,675,000	$ 995,921	$ 0.07
2010-2011	14,235,000	$17,198,404	$ 1.21
2011-2012	14,310,000	$20,443,950	$ 1.43
2012-2013	4,530,000	$ -	$ -
2013-2014	4,530,000	$ (8,171,840)	$ (1.80)
2014-2015	13,590,000	$ 3,320,557	$ 0.24
2015-2016	11,850,000	$ 4,679,112	$ 0.39
2016-2017	13,590,000	$ 1,102,532	$ 0.08
2017-2018	13,590,000	$ 359,287	$ 0.03
2018-2019 Average	**[TRADE SECRET DATA HAS BEEN EXCISED]**		

[10] They are $0.08, $0.03 and **[TRADE SECRET DATA HAS BEEN EXCISED]** per Dth. as compared to an average cost per Dth. for the entire period of **[TRADE SECRET DATA HAS BEEN EXCISED].**

2. Gas Quantities Hedged

The Company proposes to maintain its existing goal of hedging approximately 50 percent of its winter requirements from significant exposure to gas price fluctuations. Roughly half of this 50 percent goal is met via gas in storage (physical hedge) and the other half via financial instruments.

3. Longer-Term Hedging Options

In its filing, Xcel stated that while previously it would have been difficult for the Company to enter into a long-term contract for natural gas, more recently the longer-duration transactions have become more feasible. Accordingly, Xcel stated that it will consider and evaluate two- to five-year hedging opportunities for its customers. The Company indicated that, should it identify a longer-term hedging opportunity, Xcel would make a separate filing requesting Commission approval of that transaction. The Department notes that long-term contracts expose ratepayers to higher-than-market rates if prices decrease over time, and conversely, provide ratepayer benefit if prices increase. If Xcel pursues long-term contracts, the Department would expect that the Company would provide comprehensive evidence as to why this type of contract would be in the best interest of Xcel's ratepayers.

4. Annual Hedging Costs (Benefits) for Residential Customers

The Department provides Table 3 to provide the Commission with additional context regarding the effects of Xcel's financial hedging program on residential customers. The Department extracted the information in Table 3 from various Annual Automatic Adjustment (AAA) reports that have been filed since 2010.

For a residential customer with average usage, the average of the costs and benefits for the ten-year period was an additional cost of $5.07 per year, or 0.7 percent on a residential customer's average annual bill of $717.76 for that same period. The hedging program benefited (*i.e.* reduced costs for) an average residential customer in the 2013-2014 and 2018-2019 heating seasons by $10.62 and $1.80 respectively. Thus, the hedging program for an average residential customer is not particularly costly, nor has it provided significant financial benefits relative to actual prices.

The second comparison in Table 3 identifies the potential benefits of the hedging program assuming average usage and very high prices. The average annual benefit in this instance is $28.62, which represents a decrease of a little over 3 percent on a residential customer's average annual bill of $909.20 for that same ten-year timeframe.

Table 3 – Hedging Effects on Average and High Use Residential Customers 2009 through 2019

Line No.	Comparison	Heating Season	Cost or (Benefit) ($ per customer)	Total Annual Payment	Percentage of Total Gas Bill
	Average Use with Actual Prices				
1.		2009 to 2010	$ 1.14	$ 718.59	0.2%
2.		2010 to 2011	$ 22.75	$ 784.06	2.9%
3.		2011 to 2012	$ 25.98	$ 604.22	4.3%
4.		2012 to 2013	$ -	$ 710.36	0.0%
5.		2013 to 2014	$ (10.62)	$ 974.50	-1.1%
6.		2014 to 2015	$ 4.32	$ 807.24	0.5%
7.		2015 to 2016	$ 5.98	$ 565.49	1.1%
8.		2016 to 2017	$ 1.40	$ 602.58	0.2%
9.		2017 to 2018	$ 1.41	$ 675.25	0.2%
10.		2018 to 2019	$ (1.80)	$ 735.35	-0.2%
11.		Total	$ 50.56	$ 7,177.64	0.7%
12.		Average	$ 5.06	$ 717.76	0.7%
	Average Use with High Prices				
13.		2009 to 2010	$ (79.42)	$ 1,025.25	-7.7%
14.		2010 to 2011	$ (39.06)	$ 1,040.22	-3.8%
15.		2011 to 2012	$ (47.46)	$ 753.70	-6.3%
16.		2012 to 2013	$ (6.32)	$ 920.06	-0.7%
17.		2013 to 2014	$ (10.98)	$ 1,060.45	-1.0%
18.		2014 to 2015	$ (5.29)	$ 1,004.40	-0.5%
19.		2015 to 2016	$ (31.79)	$ 777.17	-4.1%
20.		2016 to 2017	$ (27.46)	$ 797.83	-3.4%
21.		2017 to 2018	$ (30.95)	$ 914.88	-3.4%
22.		2018 to 2019	$ (7.43)	$ 798.08	-0.9%
23.		Total	$ (286.16)	$ 9,092.04	-3.1%
24.		Average	$ (28.62)	$ 909.20	-3.1%

D. EXTENSION OF CURRENTLY APPROVED PGA RULES VARIANCE

In its Order dated January 23, 2002, in Docket No. G002/M-01-1336, the Commission granted Xcel a two-year variance to Minn. R. 7825.2500 B and 7825.2400, subp. 12, subject to reporting requirements, to allow Xcel to recover through the PGA prudently incurred costs of directly related futures market instruments. The Commission has granted multiple four-year extensions since the original order. All related orders, including Docket No. G002/M-01-1336, are listed in Table 4.

Table 4: Dates and Docket Numbers Associated with Prior Rule Variances

Order Date	Docket No.	Order Length	Variance Dates
January 23, 2002	G002/M-01-1336	Two-year variance	7/1/02 – 6/30/04
January 23, 2004	G002/M-03-1627	Four-year variance	7/1/04 – 6/30/08
May 27, 2008	G002/M-08-46	Four-year variance	7/1/08 – 6/30/12
October 2, 2013	G002/M-12-519	Four-year variance	7/1/12 – 6/30/16
April 22, 2016	G002/M-16-88	Four-year variance	7/1/16 – 6/30/20

In the instant petition, Xcel stated that it seeks to continue to use a mix of financial instruments, such as costless collars, futures contracts and options, to help reduce the volatility of natural gas prices for its retail sales customers. Thus, the Company requested that the Commission grant a four-year extension to the currently approved PGA rules variance through June 30, 2024, to allow Xcel to continue to flow the costs and benefits of various financial instruments to Account No. 804 and through the PGA.

As noted earlier, the Department concludes that financial hedging can provide appropriate mitigation against price increases so long as the costs of hedging are reasonable; therefore, the Department is generally supportive of the use of appropriate hedging instruments as long as these instruments do not unreasonably increase the annual average cost of purchased gas over time.

The Department believes that price stability is an important objective, but it should not be pursued at all costs. The Department also notes that its conclusion regarding the conditions for a variance is contingent upon Xcel only using financial instruments for risk hedging on behalf of ratepayers and not for speculation.

For now, the Department concludes that Xcel's currently approved variance to the PGA rules should be extended for the same reason it was granted in the first place. That is, it meets the conditions provided in Minn. R. 7829.3200. Specifically:

1. *Enforcement of the Rules Would Impose an Excessive Burden upon the Applicant or Others Affected by the Rules*

Enforcement of the rules may not allow Xcel to take advantage of the existing financial instruments in the wholesale natural gas markets. Therefore, Xcel may not be able to mitigate price volatility using futures contracts, options and collars (*e.g.*, combination of put/call options). Therefore, the Department concludes that enforcement of the rules may impose an excessive burden upon Xcel's ratepayers.

2. Granting the Variance Would Not Adversely Affect the Public Interest

Based on its earlier discussion, the Department concludes that granting the variance would not adversely affect the public interest. In addition, there is nothing in the Company's proposal that would preclude the Commission from exercising its authority to disallow imprudent or unreasonable transactions. If, in the future, the Commission concludes that Xcel acted in an unreasonable manner, it could rule that certain costs were imprudent and should not be recovered from ratepayers. As such, the public interest is fully protected.

3. Granting the Variance Would Not Conflict With Standards Imposed by Law

The Commission has previously granted the rule variances in Docket Nos. G002/M-01-1336, G002/M-03-1627, G002/M-08-46, G002/M-12-519 and G002/M-16-88, which determined that a variance to the PGA rules did not conflict with standards imposed by law. As such, the variance is consistent with the purpose of the PGA statute and rules and does not conflict with any other laws.

E. REPORTING REQUIREMENTS

Xcel proposed to continue to provide the reports required in Docket Nos. G002/M-01-1336 and G002/M-03-1627. The Department supports this proposal and recommends that the Commission require Xcel to:

- Separately identify, in its monthly PGA filings, the amount of anticipated financial instrument costs and/or benefits included in the calculation of the PGA rate.

- Include, in its requests for approval of changes in demand entitlements submitted about August 1 each year, a list of all financial instrument arrangements entered into for the upcoming heating season, including the cost premium associated with each contract, the size of each contract, contract date, contract price, and an explanation of the anticipated benefits of these contracts to Xcel's ratepayers.

- Include data on the relative benefits of price hedging contracts, specifically the average cost per Dth for natural gas purchased under financial instruments compared to the comparable monthly and daily spot index prices, in its annual AAA reports due on September 1 of each year as well as:

    - a list of each hedging instrument entered into;
    - the total volumes contracted for, for each instrument; and
    - the net gain or loss, including all transaction costs for each instrument in comparison to the appropriate monthly and daily spot prices.

The above information would allow the Department to continue to monitor the Company's hedging activity and provide notice to the Commission if further action is warranted.

III. RECOMMENDATIONS

Based on its review and analysis of Xcel's petition the Department recommends that the Commission:

- Extend the variance to Minnesota Rules 7825.2400, 7825.2500, and 7825.2700, originally granted in Docket No. G002/M-01-1336, until June 30, 2020;

- Allow the variance to apply to the costs and benefits of prudent financial positions that Xcel enters into through June 30, 2024;

- Allow Xcel to hedge no more than 50 percent of its annual winter requirements and no more than 25 percent with financial instruments;

- Limit the prudently incurred cost of financial instruments that Xcel may recover through the PGA to **[TRADE SECRET DATA HAS BEEN EXCISED]** dollars per fiscal year;

- Require Xcel to provide the actual final (settled) cost of financial instruments in required reports and to use the actual settled cost to determine the gain or loss on financial instruments; and

- Require Xcel to:

    1. Separately identify, in its monthly PGA filings, the amount of anticipated financial instrument costs and/or benefits included in the calculation of the PGA rate.

    2. Include, in its requests for approval of changes in demand entitlements submitted on approximately August 1 of each year, a list of all financial instrument arrangements entered into for the upcoming heating season, including the cost premium associated with each contract, the size of each contract, contract date, contract price, and an explanation of the anticipated benefits of these contracts to Xcel's ratepayers.

    3. Include data on the relative benefits of price hedging contracts, specifically the average cost per Dth for natural gas purchased under financial instruments compared to the comparable monthly and daily spot index prices, in its annual AAA reports due on September 1 of each year as well as:

        a. a list of each hedging instrument entered into;

        b. the total volumes contracted for, for each instrument; and the net gain or loss, including all transaction costs for each instrument in comparison to the appropriate monthly and daily spot prices.

/ar

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☐ **Not Public Document – Not For Public Disclosure**
☒ **Public Document – Not Public Data Has Been Excised**
☐ **Public Document**

Xcel Energy — Information Request No. 1
Docket No.: G002/M-19-703
Response To: MN Department of Commerce
Requestor: John Kundert
Date Received: November 12, 2019

Question:

Topic: Hedging Costs
Reference(s): Financial Instruments Annual Limit

a) Please provide the support for the requested **[TRADE SECRET BEGINS TRADE SECRET ENDS]** 2020-2021 annual cap for Northern States Power annual firm supply portfolio.

b) Please provide the support for the requested **[TRADE SECRET BEGINS TRADE SECRET ENDS]** 2019-2020 annual cap for Northern States Power annual firm supply portfolio approved in Docket No. G002/M-16-88.

Response:

a) As discussed on page 6 of the Company's November 6, 2019 Petition in the above-noted docket, the budget for the proposed 2020-2021 annual cap is based on the lowest of three third-party quotes for a November 2019 through March 2020 At-the-Money call option premium at the Ventura trading location, which was **[PROTECTED DATA BEGINS PROTECTED DATA ENDS]** per MMBtu times the proposed financial hedge quantity of 13.59 Bcf. See Attachment A to this response for quote information. Option premiums have gone up (so too has the cost of hedging) since the approval of Docket No. G002/M-16-88 because of the significant volatility experienced last year as a result of a cold start to the winter in October and November, coupled with low national storage inventories.

b) As discussed on page 6 of the Company's January 27, 2016 Petition in Docket No. G002/M-16-88, the budget for the Commission-approved 2019-2020 annual cap is based on the lowest of three third-party quotes for a November

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2016 through March 2017 At-the-Money call option premium at the Ventura trading location, which was **[PROTECTED DATA BEGINS PROTECTED DATA ENDS]** per MMBtu times the proposed financial hedge quantity of 13.68 Bcf. The methodology for determining the budget was changed in Docket No. G002/M-16-88 from using a percentage of the estimated annual gas cost as used in past Dockets. The budget calculating methodology used in this Docket is more reflective of the current cost of executing hedges.

Please note that gas supply information provided in this response and Attachment A is designated as trade secret data pursuant to Minn. Stat. §13.37, defined in part as government data, including a compilation that: 1) was supplied by the affected individual or organization, 2) is subject to efforts by the individual or organization that are reasonable under the circumstances to maintain secrecy, and 3) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use. The information in this response meets this definition for the following reasons:

1. Xcel Energy, the affected organization, is supplying the information.

2. Xcel Energy and Xcel Energy Services Inc. (XES), the service company for the Xcel Energy Inc. utility operating companies, make extensive efforts to maintain the secrecy of this information. This information is not available outside the Company except to other parties involved in contracts and to regulatory agencies under the confidentiality provisions of state or federal law, as evidenced by the non-disclosure provisions in the contracts.

3. The information designated as Protected Data derives independent economic value, actual or potential, from not being generally known or being readily ascertainable. If suppliers know the timing and volumes at which the Company will be entering into transactions, the market may use this information in a negative way to increase costs to the ratepayers.

Attachment A is marked as "Not Public" in its entirety. Pursuant to Minnesota Rule 7829.0500, subp. 3, we provide the following descriptions of the excised material:

Attachment A:

1. **Nature of the Material**: Quote information.
2. **Authors**: Gas Supply personnel.
3. **Importance**: Confidential quote information.

NOT-PUBLIC DOCUMENT – NOT FOR PUBLIC DISCLOSURE

4. **Date the Information was Prepared**: September 2019.

Preparer:	Michael Boughner
Title:	Director
Department:	Gas Supply & Planning
Telephone:	303-571-2764
Date:	November 22, 2019

PUBLIC DOCUMENT
NOT PUBLIC DATA HAS BEEN EXCISED

Northern States Power Company

Docket No. G002/M-19-703
DOC Information Request No. 1

Attachment A

Attachment A is marked as "Not Public" in its entirety. Pursuant to Minnesota Rule 7829.0500, subp. 3, we provide the following descriptions of the excised material:

Attachment A:

1. **Nature of the Material**: Quote information.
2. **Authors**: Gas Supply personnel.
3. **Importance**: Confidential quote information.
4. **Date the Information was Prepared**: September 2019.

PUBLIC DOCUMENT – NOT PUBLIC DATA HAS BEEN EXCISED

☐ **Not Public Document – Not For Public Disclosure**
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☐ **Public Document**

Xcel Energy Information Request No. 2
Docket No.: G002/M-19-703
Response To: MN Department of Commerce
Requestor: John Kundert
Date Received: December 19, 2019

Question:
Topic: Historical Hedging Costs
Reference(s): None
Please complete the enclosed table through 2018-2019.

Hedge Year	NSPM - Hedged Volumes (Dth)	MN State Actual Costs[1]	MN State Cost Excluding Hedging[2]	Hedging Cost - MN State	MN State Hedge Cost/Dth[3]	MN State Cost as % of Annual
2009-2010	14,675,000	$312,671,414	$311,675,493	$995,921	$0.01	0.32%
2010-2011	14,235,000	$325,282,768	$308,084,365	$17,198,404	$0.24	5.29%
2011-2012	14,310,000	$225,568,004	$205,124,054	$20,443,950	$0.35	9.06%
2012-2013	4,530,000	$251,190,939	$251,190,939	$0	$0.00	0.00%
2013-2014	4,530,000	$430,082,253	$438,254,092	($8,171,840)	($0.10)	-1.90%
2014-2015	13,590,000	$293,231,053	$289,910,496	$3,320,557	$0.05	1.13%

[1] These costs consist of gas commodity and peak shaving (LNG, propane) commodity supply costs. These values do not include any demand charges associated with gas supply, transportation, or storage.
[2] These costs were calculated by subtracting the Minnesota state allocated jurisdictional share of hedging costs from the values in the "MN State Actual Costs" column.
[3] Cost per Dth for all volumes delivered, not the cost per Dth for the volume hedged.

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Response:

Hedge Year	NSPM - Hedged Volumes (Dth)	MN State Actual Costs[1]	MN State Cost Excluding Hedging[2]	Hedging Cost - MN State	MN State Hedge Cost/Dth [3]	MN State Cost as % of Annual
2009-2010	14,675,000	$312,671,414	$311,675,493	$995,921	$0.01	0.32%
2010-2011	14,235,000	$325,282,768	$308,084,365	$17,198,404	$0.24	5.29%
2011-2012	14,310,000	$225,568,004	$205,124,054	$20,443,950	$0.35	9.06%
2012-2013	4,530,000	$251,190,939	$251,190,939	$0	$0.00	0.00%
2013-2014	4,530,000	$430,082,253	$438,254,092	($8,171,840)	($0.10)	-1.90%
2014-2015	13,590,000	$293,231,053	$289,910,496	$3,320,557	$0.05	1.13%
2015-2016	11,850,000	$165,547,394	$160,868,283	$4,679,112	$0.07	2.83%
2016-2017	13,590,000	$204,075,061	$202,972,529	$1,102,532	$0.02	0.54%
2017-2018	13,590,000	$227,286,024	$,226,926,737	$359,287	$0.00	0.16%
	[PROTECTED DATA BEGINS				**[PROTECTED DATA BEGINS**	
2018-2019		$271,151,393	$272,590,506	($1,439,114)		
	PROTECTED DATA ENDS]					**PROTECTED DATA ENDS]**

Portions of this response contain Not Public data pursuant to Minnesota Statute § 13.37, subd, 1(b). In particular, the information designated as Trade Secret derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use. Competitors of Xcel Energy such as other LDCs may be able to leverage knowledge of the Company's costs to gain similar terms.

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Department: Gas Supply
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Date: December 20, 2019

[1] These costs consist of gas commodity and peak shaving (LNG, propane) commodity supply costs. These values do not include any demand charges associated with gas supply, transportation, or storage.
[2] These costs were calculated by subtracting the Minnesota state allocated jurisdictional share of hedging costs from the values in the "MN State Actual Costs" column.
[3] Cost per Dth for all volumes delivered, not the cost per Dth for the volume hedged.