COMMERCE DEPARTMENT

April 14, 2020

Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
Saint Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G002/M-20-282

Dear Mr. Seuffert:

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

> In the Matter of the Petition of Northern States Power Company, doing business as Xcel Energy (Xcel), for Approval of an Extension of a Rule Variance to Use a Monthly Demand Cost True-up Mechanism.

The Petition was filed on February 14, 2020 by:

> Lisa Peterson
> Manager, Regulatory Analysis
> Xcel Energy
> 414 Nicollet Mall, 401 – 7th Floor
> Minneapolis, MN 55401

The Department recommends that the Minnesota Public Utilities Commission (Commission) **approve the requested extension**. The Department is available to answer any questions that the Commission may have in this matter.

Sincerely,

/s/ DANIEL W. BECKETT
Rates Analyst

DWB/ja
Attachment

COMMERCE DEPARTMENT

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. G002/M-20-282

I. SUMMARY OF XCEL'S PROPOSAL

On February 14, 2020, Northern States Power Company, a Minnesota corporation, doing business as Xcel Energy (Xcel or the Company) petitioned the Minnesota Public Utilities Commission (Commission) for approval of an extension of a variance to the Purchased Gas Adjustment (PGA) Rules, Minn. R. 7825.2700, subp. 5, related to the recovery of demand costs. Extension of the variance would allow the Company to continue its Monthly Demand Cost True-up Mechanism, through which Xcel collects or returns under- and over-recoveries of demand costs on a monthly basis instead of solely on an annual basis. Xcel stated that this approach would reduce the over- or under-recovery of demand costs during the gas year that primarily results from weather conditions deviating from normal patterns.

The variance enabling Xcel's Monthly Demand Cost True-up Mechanism was first approved by the Commission in its Order in Docket No. G002/M-03-843 to be in effect through September 30, 2006, extended for two years in Docket No. G002/M-06-68, extended a second time for three years in Docket No. G002/M-08-456, extended a third time for three years in Docket No. G002/M-11-203, extended a fourth time in Docket No. G002/M-14-171, and most recently extended, for three years, in Docket No. G002/M-17-101 through September 30, 2020. In the current petition, the Company requests an extension of the variance for three additional years, through September 30, 2023.

II. DETAILS OF XCEL'S PROPOSAL

A. INTRODUCTION

Xcel requests approval of a three-year extension of a variance first approved in a June 11, 2004 Order.[1] The variance has allowed the Company to use the demand-rate recovery method defined by Minn. R. 7825.2700, subp. 5 on a monthly, rather than an annual, basis. The proposal would also allow the Company to continue to apply the existing annual true-up calculation to both commodity and demand costs to ensure a final annual true-up of any remaining costs not accounted for in the Monthly Demand True-up Mechanism.

The purpose of the Monthly Demand Cost True-up Mechanism is to minimize the over- or under-recovery of demand costs during a gas year due to weather conditions. The mechanism should result in billing rates that are:

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[1] Docket No. G002/M-03-843, June 11, 2004 *Order Approving a Monthly Demand Cost True-up Mechanism with Requirements and Granting a Variance until September 30, 2006*.

- Lower than without the mechanism when there is colder-than-normal weather (when natural gas consumption and customer bills are high); and
- Higher than without the mechanism when there is warmer-than-normal weather (when natural gas consumption and customer bills are low).

Under either scenario, matching demand costs with demand-cost recovery would be timelier than without the mechanism.

Xcel stated that a mismatch of when the utility incurs and recovers demand costs is inherent in the rate-setting process. Demand costs, for the most part, are fixed costs paid to interstate pipelines. These costs are recovered on a volumetric basis from customers through the PGA. The per-unit cost recovery amount is calculated based on weather-normalized sales. Thus, when actual weather causes natural gas consumption to deviate from the weather-normalized volume, the amount recovered deviates from the actual cost. In a colder-than-normal year with high natural gas consumption, the demand costs are over-recovered; while in a warmer-than-normal year with lower than normal natural gas, demand costs are under-recovered. The magnitude of the over- or under-recovery varies directly with the magnitude of the deviation in weather from the historical mean in a given month.

B. EFFECTS OF CAPACITY RELEASE CREDITS

When a utility does not need as much capacity as the amount for which it contracted, it can sell it back into the market, which is referred to as a "capacity release." The revenue from such a sale is credited back to ratepayers in a capacity release credit. Capacity release credits must be considered when adjusting rates through a monthly true-up to avoid over-recovery for demand that was not used in any given year. These credits must be included in the monthly true-up so as to avoid a mismatch between when the Company receives the credit and when ratepayers receive the benefits of the releases.

In the 2006-2007 gas year, Xcel saw a relatively large number of capacity release transactions, many of which did not get included in the monthly PGA calculations, but were captured in the annual true-up, which led to a large over-recovery. This issue stemmed from a communication breakdown between different business units within the Company. At the time, Xcel proposed to include the capacity release adjustments in the Monthly Demand Cost True-up calculation with a one-month lag. This lag allows for a timelier match of potential capacity release credits and mitigates the risk of missing capacity release transactions when calculating the monthly PGA. The Commission agreed with Xcel's proposal for including a capacity release adjustment in its Monthly Demand Cost True-up calculation. The Department supports Xcel's proposal to continue using the capacity release adjustment as approved in Docket No. G002/M-08-456.

C. PROPOSED MECHANISM

1. Proposed Monthly Demand Cost True-up Mechanism

Commission rules provide for an annual true-up to ensure that over- or under-recovery does not persist. However, this annual adjustment means that there may be significant cost shifting between years and customers, as well as time-value financial effects for the Company and its customers. The monthly demand-cost adjustments under the requested variance should result in a timelier match of when demand costs are incurred and recovered and in a reduction in the annual true-up amount.

The Company proposes to use the same Monthly Demand True-up Mechanism that was originally approved in Docket No. G002/M-03-843, with the addition of the capacity-release adjustment approved in Docket No. G002/M-08-456 as noted above. The mechanism is applied only to non-demand-billed firm customers, with Residential and Commercial true-ups calculated separately from each other.

Xcel calculates the actual monthly demand rate revenue for these two classes of customers and finds the deviation from the weather-normalized rate revenue for each month from October through May. Xcel multiplies the difference in sales by the Demand Cost Recovery rate in the PGA for that calendar month. Xcel adds the monthly over- or under-recovery on a lagged basis to the over- or under-recovery collected using the Monthly Demand Cost True-up rate itself. Xcel adds this amount to the capacity release over- or under-recovery to create the total lagged over- or under-recovery. Finally, Xcel divides this lagged over- or under-recovery by the weather-normalized forecasted sales to determine the Monthly Demand True-up Rate, subject to a cap, and adds this unit rate to the subsequent month's PGA base demand rate, which is calculated consistent with the Commission's rules.

The mechanism in place includes caps on the Monthly Demand Cost True-up amount. For October, April, and May, the cap is 25 percent of the demand-cost recovery rate. The cap for November through March, accommodating the Company's seasonal rates, is 125 percent of the levelized demand-cost rate minus the actual demand-cost recovery rate.

2. Minnesota Rules Variance Standards

Any variance to Minn. R. 7825.2700, subp. 5 must comply with the following standards of Minn. R. 7829.3200 for granting a variance:

- Enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule;
- Granting the variance would not adversely affect the public interest; and
- Granting the variance would not conflict with standards imposed by law.

Xcel asserts that this filing meets all of these criteria for allowing a variance. The Department discusses this issue below in its analysis.

3. Reporting and Compliance Measures

The Company agrees to continue to comply with existing reporting and evaluation requirements. These requirements are listed in the petition and include:

- Showing detailed calculation of the adjustment factor on pages 4-5 of Schedule A of the Company's monthly PGA filing;
- Identifying the adjustment and resulting total non-demand billed Demand Cost Recovery Rate for the month as separate line items on page 3 of Schedule A in the Company's monthly PGA filing; and
- Identifying by customer class the monthly demand true-up revenues and summarizing for each firm non-demand billed customer class in the Company's annual true-up filing:
    - the annual demand-cost recovery absent the adjustments;
    - the total annual adjustment recovery; and
    - the remaining current year demand-cost recovery true-up balance.

III. DEPARTMENT ANALYSIS

A. INTRODUCTION

In its consideration of the current petition for a three-year extension of the rule variance for Xcel to use a Monthly Demand Cost True-up Mechanism, the Department:

- Analyzed the performance of the rule variance in the gas years 2004-2005 through 2018-2019;
- Examined whether a three-year extension is an appropriate period;
- Analyzed whether the proposed variance extension meets the standards of Minn. R. 7829.3200; and
- Examined whether the existing reporting requirements are reasonable.

B. RULE-VARIANCE PERFORMANCE

1. Monthly Demand Cost True-up Mechanism

Xcel supplied information for the most recent gas year, 2018-2019, in Attachment A of its filing. The information enables evaluation of the performance of the Monthly Demand Cost True-up Mechanism allowed under the rule variance. The Company also presented information in Attachment B summarizing the performance of the mechanism for true-up years 2004-2005 through 2018-2019. Attachment B includes the amounts for actual demand-cost recovery, demand-cost recovery from the mechanism, and demand-cost recovery absent the mechanism for residential and commercial customer classes. Table 1 below shows the Company's actual recovery with and without the Monthly Demand Cost True-up.

Table 1: Over (Under) Recovery of Demand Costs

True-up Year	With Monthly Demand True-up (Actual)	Without Monthly Demand True-up	Reduction (Increase) in Demand–Cost Recovery Due to True-up
2004-2005	($652,620)	($3,719,363)	$3,066,743
2005-2006	($3,049,081)	($6,185,302)	$3,136,220
2006-2007	$4,350,806	$703,577	($3,647,229)
2007-2008	$2,628,293	$3,496,825	$868,532
2008-2009	$2,433,476	$3,595,452	$1,161,976
2009-2010	($364,022)	($868,664)	$504,642
2010-2011	$1,747,270	$2,501,934	$754,664
2011-2012	($4,997,545)	($7,563,341)	$2,565,796
2012-2013	$2,353,998	$2,047,095	($306,903)
2013-2014	$7,372,733	$10,967,375	$3,594,643
2014-2015	$2,525,679	$4,505,962	$1,980,283
2015-2016	($2,638,930)	($5,530,911)	$2,891,981
2016-2017	($996,915)	($2,881,719)	$1,884,804
2017-2018	$4,167,484	$7,625,510	$3,458,026
2018-2019	$3,098,460	$6,871,379	$3,772,919

Table 1 shows that the Monthly Demand Cost True-up Mechanism reduced Xcel's over- or under-recovery due to weather conditions during all but the 2006-2007 and 2012-2013 true-up years. The Department notes that the over-recovery beyond that which would have occurred in the True-up year of 2006-2007 was due to large capacity release credits that Xcel failed to incorporate and to capacity releases that occurred after the PGA for that month was calculated (see discussion above regarding Docket No. G002/M-08-456). Moreover, in its comments on Docket No. G002/M-11-203 the Department showed that if it were not for the capacity release issues, the mechanism would have resulted in a reduction in the demand-cost recovery for the 2006-2007 true-up year.

The over-recovery increase due to the mechanism in 2012-2013 was primarily the result of extreme weather that occurred at the end of the true-up year. Xcel noted that an abnormally cold 2013 spring lead to increased sales and thus an over-recovery of demand costs late in the true-up year, which could not be resolved due the time remaining in the true-up year and the caps on the size of adjustments that may be made. This matter was further discussed in the Company's 2014 variance filing, as well as in the Department's comments.[2] Xcel stated that the caps are appropriate in the mechanism and that overall the mechanism successfully performs as designed, even if extreme weather at the end of the true-up year can cause an increase in demand-cost over-recovery. The Department agrees with Xcel

[2] Docket No. G002/M-14-171

that the caps are appropriate and should remain in place to prevent possible rate shock as a result of abnormal weather.

Moreover, the mechanism has no effect on the total recovery of demand costs; if the mechanism did not exist, then the amount brought forward to the annual true-up would simply be larger. However, by reducing the size of the amount to be trued up, the mechanism brings about a timelier match of demand costs and demand-cost recovery. Therefore, the Department concludes that the mechanism has been effective and is useful even if extreme weather toward the end of the true-up year can disrupt the advantages of the mechanism.

2. Monthly Billing Effect

Table 2 below shows, for each year that the monthly true-up has been operating, the largest adjustments to customers' monthly bills. Of these amounts, the largest charge was $2.66 during January 2005, which represented the largest percent change in bill size due to a charge for customers, which was 1.44 percent of the bill. The largest credit was $1.85 in February 2019, which also represented the largest percent change due to a credit.

Table 2: Extreme Monthly Demand True-up Dollar Amounts for a Typical Residential Customer

True-up Year	Largest Charge			Largest Credit		
	Amount of Adjustment	Percent of Bill	Month	Amount of Adjustment	Percent of Bill	Month
2004-2005	$2.66	1.44%	January	($.21)	0.42%	October
2005-2006	$1.58	0.90%	February	($0.30)	0.64%	April
2006-2007	$1.97	1.13%	February	($0.46)	0.35%	December
2007-2008	$0.76	0.42%	January	($0.71)	0.46%	March
2008-2009	$0.16	0.09%	December	($0.77)	0.62%	February
2009-2010	$1.45	0.92%	January	($0.72)	0.98%	March
2010-2011	$0.26	0.19%	December	($0.94)	0.89%	March
2011-2012	$1.24	1.12%	January	($0.00)	0.00%	October
2012-2013	$1.23	1.20%	February	($0.57)	0.90%	April
2013-2014	$0.02	0.02%	November	($1.52)	0.99%	February
2014-2015	$0.32	1.29%	May	($1.48)	1.14%	January
2015-2016	$1.37	1.24%	January	none	none	N/A
2016-2017	$1.47	1.17%	January	($0.31)	0.40%	February
2017-2018	$0.19	0.18%	December	($1.44)	1.32%	February
2018-2019	$0.28	0.25%	February	($1.85)	1.36%	January

These amounts and percentages are small relative to customers' total bills. Moreover, they are evidence that the Monthly Demand Cost True-Up Mechanism can work to the benefit of either Xcel or ratepayers in a given month. The Department concludes, therefore, that the effect of the mechanism on monthly bills is reasonable.

C. LENGTH OF THE EXTENSION

Xcel requests that the extension of the variance be for three years, through September 30, 2023. The current variance, approved in Docket No. G002/M-17-101, is for three years. The Company stated in its petition that CenterPoint Energy (CPE) received approval for a three-year extension of a similar variance in Docket No. G008/M-19-342 on September 5, 2019.

The Department concludes from its analysis that the Monthly Demand Cost True-up Mechanism has been effective in achieving a timelier match of demand costs and demand-cost recovery, while keeping the effect on customers' bills small. The Department also agrees that Xcel's request for a three-year extension of the variance is consistent with Commission precedent. For these reasons, the Department concludes that a three-year extension of the variance is appropriate.

D. CRITERA FOR VARIANCE

As stated above Xcel has requested a variance to Minn. R. 7825.2700, subp. 5 so that the Company can make timelier adjustments to account for variations in demand costs. Under Minnesota Rule 7829.3200 the Commission shall grant a variance to its rules when it determines that the following requirements are met:

a. Enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule;

b. Granting the variance would not adversely affect the public interest; and

c. Granting the variance would not conflict with standards imposed by law.

Xcel stated in the Company's filing that enforcement of Minn. R. 7825.2700, subp. 5 would impose an excessive burden on Xcel's customers because, with a yearly PGA true-up, the under- or over-recovery of demand costs incurred in one year is shifted to ratepayers that take gas from the Company in the following year. This effect may impose a financial burden on customers, as new customers could be responsible for charges that were incurred by others, and customers who move away cannot recoup any overpayment. As there are no carrying charges applied to these under or over-recoveries there is the potential for large annual true-up balances to financially harm both customers and the Company. Xcel believes that granting this variance is in the public interest, as it allows the Company to price services to more accurately reflect the demand costs being incurred by the Company and to mitigate the potential that future customers will experience an extreme demand cost shift. Finally, the Company stated that it is not aware of any laws that would be violated by granting this variance.

The Department agrees with Xcel's claim that enforcing the rule would impose an unnecessary burden on the Company's customers and that granting the variance would not adversely affect the public interest. Finally, the Department is also not aware of any laws that would be violated by granting this variance.

E. REPORTING REQUIREMNTS

The Department concludes that the existing reporting requirements are reasonable and should be continued.

IV. SUMMARY AND RECOMMENDATION

The Department recommends that the Commission approve Xcel's requested three-year extension of the variance through September 30, 2023, retaining the existing reporting requirements, as follows:

- Show detailed calculation of the adjustment factor on pages 4-5 of Schedule A of the Company's monthly PGA filing;
- Identify the adjustment and resulting total non-demand billed Demand Cost Recovery Rate for the month as separate line items on page 3 of Schedule A in the Company's monthly PGA filing; and
- Identify by customer class the Monthly Demand Cost True-up revenues and summarizing for each firm non-demand billed customer class in the Company's annual true-up filing:
    - the annual demand cost recovery absent the adjustments;
    - the total annual adjustment recovery; and
    - the remaining current year demand-cost recovery true-up balance.

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