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April 6, 2020

—Via Electronic Filing—

Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101

RE: REPLY COMMENTS
STATE ENERGY POLICY RIDER
DOCKET NO. G002/M-20-323

Dear Mr. Seuffert:

Northern States Power Company, doing business as Xcel Energy, submits to the Minnesota Public Utilities Commission this Reply to the March 27, 2020 Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the above-referenced docket.

The Company and the Department agree on the reasonableness of the costs going through the SEP Rider. The only outstanding issue relates to the natural gas sales forecast used to calculate the rider rate. As the Department states in Comments,

However, the Company's revenue collections were \$343,329 higher than forecasted based on higher actual sales levels across all classes. This is concerning, especially in light of the facts that 1) Xcel has underestimated sales in prior SEP filings and 2) the Commission had approved a reduced SEP Rider rate in Docket No. G002/M-19-200 based on a higher sales forecast than initially proposed by Xcel Energy.

As a result, the Department recommends that Xcel Energy explain in reply comments the reason(s) for its under-estimation of its proposed 2018-2019 sales forecast of 1,011,582,014 in Docket No. G002/M-19-200 and provide its actual, non-normalized 2019 sales.

First a clarifying note: 1,011,582,014 therms was our proposed July 2019 – June 2020 sales forecast used to calculate the proposed 2019 – 2020 SEP Rider rate in Docket No. G002/M-19-200. The final rate approved by the Commission in that docket was calculated using 2018 actual retail sales of 1,109,497,520.

There are two primary factors contributing to the difference between the sales forecast of 1,011,582,014 therms and actual 2019 sales of 1,310,860,707 therms. The weather in 2019 was colder than normal and Interdepartmental Transportation sales, which is gas used for electric generation, were higher than forecast.

Weather

Actual weather in 2019, as measured by heating degree days (HDD), was much colder than normal, resulting in more gas sales. For the year, there were 10.5 percent more HDD than normal. These higher-than-normal HDD occurred in seven of the eight primary heating months (January, February, March, April, May, October, and November), with only one heating month (December) slightly warmer than normal. For the seven colder-than-normal months, the total variance from normal HDDs was 15.8 percent. Table 1 compares normal versus actual HDD by month for 2019.

Table 1: Forecasted and Actual Heating Degree Days

| | <u>Normal</u> | <u>Actual</u> | <u>%</u> |
|-------------------|---------------|---------------|------------------|
| <u>2019</u> | <u>HDD</u> | <u>HDD</u> | <u>Deviation</u> |
| Jan | 1,486 | 1,569 | 5.6% |
| Feb | 1,223 | 1,448 | 18.4% |
| Mar | 966 | 1,129 | 16.8% |
| Apr | 502 | 557 | 10.9% |
| May | 203 | 295 | 45.5% |
| Jun | 33 | 10 | -70.0% |
| Jul | 3 | 0 | -100.0% |
| Aug | 6 | 2 | -72.7% |
| Sep | 115 | 58 | -49.5% |
| Oct | 470 | 584 | 24.3% |
| Nov | 846 | 1,013 | 19.7% |
| Dec | 1,339 | 1,285 | -4.1% |
| Total 2019 | 7,192 | 7,949 | 10.5% |
| Jan-May, Oct, Nov | 5,696 | 6,594 | 15.8% |
| Jan-May, Oct-Dec | 7,035 | 7,879 | 12.0% |

The colder-than-normal weather contributed 53,475,596 more therms to 2019 sales than would have been seen with normal weather. Attachment A shows the comparison by class of the July 2019 – June 2020 forecast to calendar year 2019 non-normalized actual sales and to 2019 weather normalized actual sales.

A minor point of clarification: Page 4 of the Department’s Comments states, “the Company’s revenue collections were \$343,329 higher than forecasted based on *higher actual sales levels across all classes*.” Our Petition stated that actual sales were higher than forecast, but did not state that sales were higher *across all classes*. As Attachment A shows, sales were higher overall, but were lower for some classes.

Interdepartmental Transportation Sales

The second factor contributing to the sales differences is higher than forecasted volumes for the Interdepartmental Transportation class, which serves our gas-fired electric generating units. Gas generation was higher than forecast due to greater commitments and dispatch by MISO. The reduced commitment of coal generation by MISO in 2019 contributed to greater commitment and dispatch of natural gas generation. Owned and purchased wind generation was also lower than forecast for 2019 primarily due to lower than normal wind speeds, which further contributed to greater gas generation. Attachment A shows the comparison of the July 2019 – June 2020 forecast to 2019 actual sales.

The Company continues to believe our sales forecasting methodology is appropriate for rate-setting, and we continue to support the use of forecasted sales as the best opportunity for matching costs and revenues for the following reasons:

- The Company’s forecast is based on sound statistical methodologies that are used throughout the utility industry and incorporates reasonable assumptions. The forecast reasonably assumes normal weather during the forecast period, and, therefore, variances will exist when the weather-normal forecasted sales are compared to non-weather normalized actual sales.
- The forecast of generation gas use is based on the same underlying electric sales forecast that is used for rate case and fuel reform filings. It uses the PLEXOS software and model which is used for the fuel filings under the new fuel reform process.¹ PLEXOS is a widely used and industry accepted model for forecasting generation.

¹ The fuel reform process was approved in Docket No. E999/CI-03-802. The most recent electric fuel forecast for calendar year 2020 was submitted in Docket No. E002/AA-19-293.

- A forecast of generation gas use is superior to using historical data because it can capture changes in the system resource mix that can materially impact gas generation. For example, the large additions of renewable energy the Company is adding in 2020-2021 will likely impact gas generation. This will not be reflected in historical data and can only be captured by using a forecast model. The same applies to electric load. We are currently seeing large reductions in electric load due to the pandemic, which is impacting gas generation. It likely will not make sense next year to use this historical period to forecast on-going gas use for generation after the pandemic ends. Furthermore, use of historic generation neglects changes in natural gas prices which can significantly impact future gas expectations. The PLEXOS model uses natural gas futures prices which are the best indicator of what the price of natural gas will be for the recovery period.

We have electronically filed this document with the Commission, and copies have been served on the parties on the attached service list. If you have any questions regarding this filing please contact Martha Hoschmiller at martha.e.hoschmiller@xcelenergy.com or (612) 330-5973, or me at (612) 330-7681 or lisa.r.peterson@xcelenergy.com

Sincerely,

/s/

LISA R. PETERSON
MANAGER, REGULATORY ANALYSIS

Enclosures
c: Service List

Northern States Power Company
 Minnesota State
 State Energy Policy Rider

Docket No. G002/M-20-323
 Reply Comments
 Attachment A
 Page 1 of 1

| | <u>Forecast Thm*</u> | <u>2019 Actual Thm</u> | <u>Difference Act-Fcst</u> | <u>2019 WN Actual Thm</u> | <u>Difference WN Act-Fcst</u> | <u>Thm Weather Impact</u> |
|-----------------------------|----------------------|------------------------|----------------------------|---------------------------|-------------------------------|---------------------------|
| Residential | 373,730,534 | 412,567,954 | 38,837,420 | 380,212,808 | 6,482,274 | 32,355,146 |
| Small C&I | 61,718,585 | 62,410,602 | 692,018 | 50,857,927 | -10,860,657 | 11,552,675 |
| Large C&I | 158,260,568 | 177,821,662 | 19,561,094 | 173,000,845 | 14,740,277 | 4,820,817 |
| Demand | 29,927,070 | 30,694,079 | 767,009 | 29,402,913 | -524,157 | 1,291,166 |
| Small Interruptible | 21,217,478 | 23,845,296 | 2,627,817 | 22,314,693 | 1,097,215 | 1,530,602 |
| Medium Interruptible | 54,910,649 | 60,289,551 | 5,378,903 | 58,364,362 | 3,453,713 | 1,925,189 |
| Large Interruptible | 29,028,875 | 27,614,382 | -1,414,493 | 27,614,382 | -1,414,493 | 0 |
| Generation | 465,220 | 1,911,580 | 1,446,360 | 1,911,580 | 1,446,360 | 0 |
| Interdepartmental | 96,450 | 88,290 | -8,160 | 88,290 | -8,160 | 0 |
| Total Sales | 729,355,429 | 797,243,397 | 67,887,968 | 743,767,801 | 14,412,371 | 53,475,596 |
| Firm Transport | 5,464,920 | 6,007,010 | 542,090 | 6,007,010 | 542,090 | 0 |
| Interruptible Transport | 43,538,750 | 45,345,650 | 1,806,900 | 45,345,650 | 1,806,900 | 0 |
| Negotiated Transport | 73,695,290 | 71,808,960 | -1,886,330 | 71,808,960 | -1,886,330 | 0 |
| Interdepartmental Transport | 159,527,625 | 390,455,690 | 230,928,065 | 390,455,690 | 230,928,065 | 0 |
| Total Transport | 282,226,585 | 513,617,310 | 231,390,725 | 513,617,310 | 231,390,725 | 0 |
| Total Throughput | 1,011,582,014 | 1,310,860,707 | 299,278,693 | 1,257,385,111 | 245,803,096 | 53,475,596 |

*Forecast is July 2019-June 2020

CERTIFICATE OF SERVICE

I, Paget Pengelly, 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 No. G002/M-20-323

Dated this 6th day of April 2020

/s/

Paget Pengelly

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