



85 7th Place East, Suite 500, St. Paul, MN 55101-2198

main: 651.296.4026

tty: 651.296.2860

fax: 651.297.7891

www.energy.mn.gov

November 1, 2012

Dr. Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: Supplemental Comments of the Minnesota Department of Commerce, Division of Energy Resources
Docket No. G002/M-11-1076

Dear Dr. Haar:

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

Petition of Northern States Power Company, a Minnesota Corporation (Xcel or the Company), for Approval of Changes in Contract Demand Entitlements.

The petition was filed on November 1, 2011. The petitioner on behalf of Xcel is:

Amy Lieberkowski
Manager, Pricing and Planning
Xcel Energy Services Inc.
414 Nicollet Mall, 7th Floor
Minneapolis, MN 55401
612-330-6613

The Department concludes that Xcel has addressed the issues and concerns that the Department requested the Company to respond to in Reply Comments. Therefore, the Department recommends that the Minnesota Public Utilities Commission (Commission) approve Xcel's proposed demand entitlements and its proposal to recover costs associated with certain demand costs from interruptible customers. The Department is available to answer any questions the Commission may have.

Sincerely,

/s/ MARLON GRIFFING
Financial Analyst

MG/jl
Attachment



BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

SUPPLEMENTAL COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET NO. G002/M-11-1076

I. BACKGROUND

Northern States Power Company, a Minnesota Corporation (Xcel or the Company), filed a demand entitlement petition (Petition) on November 1, 2011.

The Minnesota Department of Commerce, Division of Energy Resources (Department) filed Comments on February 3, 2012. In those Comments, the Department recommended approval of Xcel's demand entitlements request and the Company's proposal to recover costs associated with demand entitlements, pending resolution of any revisions in the implementation of changes in recovery of demand costs.

The Department also requested that Xcel provide explanations regarding three issues in Reply Comments:

- Explain why the Company used 60 data points rather than 70 data points in its Average Monthly Design Day forecast method and to state whether it has plans to increase the number of data points in subsequent years' demand entitlement filings;
- Indicate whether Xcel has any concern about rate shock from its plan to assign a portion of storage costs and balancing services costs to interruptible customers. If there is a concern about rate shock, the Department invites Xcel to propose a phase-in plan; and
- State whether Xcel can submit, on a going-forward basis, its annual demand entitlement filing by August 1.

The Company filed Reply Comments on February 13, 2012, in which it addressed the three issues.

The Department provides its response below; the Department apologizes for the delay in responding to Xcel's reply comments and notes that the issues pertaining to this proceeding have now been sufficiently resolved.

II. DEPARTMENT ANALYSIS

A. NUMBER OF DATA POINTS USED IN THE AVERAGE MONTHLY DESIGN-DAY FORECAST

1. Background

Xcel implemented a new customer database in March 2005. Hence, only 10 months of consumption data are available for 2005. As the Company stated in its 2008-2009 Demand Entitlement filing, it used the 10 data points from 2005 to bolster the total number of data points available for its Average Monthly Design-Day (Avg. Monthly DD) forecast because the total number of points available was less than the Company preferred. In the two subsequent filings, the Company increased the total data points from 34 to 46, and 46 to 58.

In its Reply Comments, Xcel stated that it prefers to use whole years of data for design-day regressions. Further, the Company notes that it stated its preference for using 60 data points (five whole years) as inputs in its forecasting in its 2010-2011 Demand Entitlement filing. The current docket was the first opportunity for the Company since its service-area reorganization to use five whole years (2006-2010) of data points. Thus, Xcel dropped the 10 2005 data points from its forecast inputs in the current docket.

Xcel states that it recalculated its Avg. Monthly DD forecast using 70 data points in response to the Department's concern about the number of data points used in the forecast. The Company notes that the recalculation changed the forecast by 2 decatherms (dth) from an original forecast of slightly more than 702,000 dth. The differences in the forecast demand in all the service areas were less than 0.5 percent. R-squared values actually were smaller with 70 data points than with 60 data points in 33 of the 42 regressions conducted for the Xcel service areas.

2. Conclusion

The Department appreciates that Xcel performed a recalculation of the Avg. Monthly DD forecast with 70 data points. The outcome indicates that the additional 10 data points had little effect on the outcome of the forecast, and may even have, on balance, produced a less accurate forecast than the 60-data point forecast.

Although the differences in the outcomes are hardly conclusive evidence that 60 data points are better than 70 data points, the Department agrees that dropping the 10 data points from 2005 from the forecast is a good idea. The two months missing from the 2005 data are the high-natural gas-use months of January and February. Thus, key information about gas-consumption is missing from that year. Therefore, even though the 10 data points from 2005 are available, the Department concludes that it is reasonable to exclude them from the forecast in the current docket.

Xcel would like to use a rolling 60-month data set on a going-forward basis for demand entitlement filings. If it could be assured that the long-term trend in natural-gas consumption is downward, meaning that six-year-old data points may not be good indicators of what would happen in 2011, this approach might be reasonable. However, given the discussions about potentially great use of natural gas for a variety of purposes, including electric generation, it may not be appropriate to determine at this point that a rolling 60-month data set is the correct data set. Further, there are more statistically appropriate ways to capture the effects of trends without the loss of data. Thus, while Xcel may choose to use 60 data points in its future analyses, the Company needs to retain data back to the full year of 2006.

B. RATE-SHOCK CONCERNS ASSOCIATED WITH A CHANGE IN THE ALLOCATION OF CERTAIN DEMAND COSTS

Xcel asserts that the rate increase for interruptible customers that would be the result of allocating certain demand costs to interruptible customers would not create rate shock. The Company states that a typical interruptible customer would see an increase to its annual bill of approximately 1.2-1.4 percent. Moreover, Xcel's proposal is to make the allocation change prospective, having it go into effect one month after Commission approval. Thus, customers would have a chance to consider the rate change prior to taking service and have an opportunity to shift to another rate plan. The prospective implementation of the new allocation also would reduce the effect of the true-up factor in the first year the allocation is in effect. For these reasons, the Department concludes that Xcel has addressed rate-shock concerns and agrees that the rates should be adjusted on a going-forward basis, one month after the Commission decides the matter.

C. MAKING THE ANNUAL DEMAND ENTITLEMENT FILING BY AUGUST 1

Xcel asserts that it can file its annual demand entitlement filing by August 1 of future years. The Department notes that the Company made its 2012 Demand Entitlement filing on August 1, 2012, as stated. The Department appreciates Xcel's willingness to make this change which allows the Department to review the Company's proposed demand entitlements prior to each heating season.

III. CONCLUSIONS AND RECOMMENDATIONS

The Department concludes that Xcel has:

- sufficiently explained its reasons for using 60 data points rather than 70 data points in its current demand entitlements forecast;
- presented evidence that the proposal to change the allocation of certain demand costs to interruptible customers will not cause rate shock if implemented on a going-forward basis, one month after the Commission makes its determination; and
- committed to and demonstrated that it can meet an August 1 deadline for making demand entitlement filings in subsequent years.

While the Department does not recommend that the Commission determine at this time that a rolling 60-month data set is the correct data to use in future demand entitlement filings, Xcel's filings can rely on that approach so long as the Company retains the data back to the full year of 2006.

/jl

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
Supplemental Comments**

Docket No. G002/M-11-1076

Dated this **1st** of **November, 2012**

/s/Sharon Ferguson

| First Name | Last Name | Email | Company Name | Address | Delivery Method | View Trade Secret | Service List Name |
|------------|-----------|-----------------------------------|------------------------------------|--|--------------------|-------------------|-------------------------|
| Julia | Anderson | Julia.Anderson@ag.state.mn.us | Office of the Attorney General-DOC | 1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134 | Electronic Service | Yes | OFF_SL_11-1076_Official |
| Sharon | Ferguson | sharon.ferguson@state.mn.us | Department of Commerce | 85 7th Place E Ste 500 Saint Paul, MN 551012198 | Electronic Service | No | OFF_SL_11-1076_Official |
| Burl W. | Haar | burl.haar@state.mn.us | Public Utilities Commission | Suite 350 121 7th Place East St. Paul, MN 551012147 | Electronic Service | Yes | OFF_SL_11-1076_Official |
| John | Lindell | agorud.ecf@ag.state.mn.us | Office of the Attorney General-RUD | 1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130 | Electronic Service | Yes | OFF_SL_11-1076_Official |
| Matthew P | Loftus | matthew.p.loftus@xcelenergy.com | Xcel Energy | 414 Nicollet Mall FL 5 Minneapolis, MN 55401 | Electronic Service | No | OFF_SL_11-1076_Official |
| SaGonna | Thompson | Regulatory.Records@xcelenergy.com | Xcel Energy | 414 Nicollet Mall FL 7 Minneapolis, MN 554011993 | Electronic Service | Yes | OFF_SL_11-1076_Official |