

March 29, 2016

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G002/M-16-206

Dear Mr. Wolf:

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

Petition of Northern States Power Company, d/b/a Xcel Energy, for Approval of a Modification to the Natural Gas State Energy Policy (SEP) Tariff Rate, 2016 Project Eligibility, 2016 SEP Adjustment Factor, and 2015 SEP Compliance Filing.

The Petition was filed on March 1, 2016 by:

Amy Liberkowski
Manager, Regulatory Analysis
Xcel Energy Service, Inc.
414 Nicollet Mall – 7th Floor
Minneapolis, Minnesota 55401

The Department recommends **approval of Xcel Energy's petition, with reporting requirements**, and is available to answer any questions the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ MICHAEL N. ZAJICEK
Rates Analyst

MNZ/lt
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET No. G002/M-16-206

I. BACKGROUND

In its April 6, 2004 *Order Approving State Policy Rate Rider, as Modified* in Docket No. E,G002/M-03-1544 (03-1544 Order), the Minnesota Public Utilities Commission (Commission) approved Northern States Power Company, d/b/a Xcel Energy's (Xcel or the Company), State Energy Policy Rider (SEP Rider). The Commission also directed Xcel Energy to submit an annual filing by March 1 of each year detailing the following information:

- a. electric-related Reliability Administrator (RA) and State building guidelines (SBG) expenses, Xcel Energy-Prairie Island settlement expenses, and costs associated with the independent study of intermittent resources;
- b. revenues obtained from the approved electric SEP Rider adjustment;
- c. proposed revised electric SEP Rider rate, together with a listing and description of all assumptions used to calculate the proposed revised electric SEP Rider rate;
- d. natural gas related RA and SBG expenses;
- e. revenues obtained from the approved gas SEP Rider rate; and
- f. proposed revised gas SEP Rider rate, together with a listing and description of all assumptions used to calculate the proposed revised gas SEP Rider rate.

Since its 03-1544 Order, the Commission has issued determinations concerning the Company's SEP Rider in twelve separate proceedings.¹ Most recently, the Commission's

¹ The specific proceedings are:

- Docket No. E002/M-05-359;
- Docket No. E002/M-06-364;
- Docket No. E,G002/M-07-283;
- Docket No. E,G002/M-08-261;
- Docket No. E,G002/M-09-201;
- Docket No. E,G002/M-10-210;
- Docket No. E,G002/M-11-175;
- Docket No. E,G002/M-12-185;

November 25, 2015 Order in Docket No. G002/M-15-194 set Xcel Energy's natural gas SEP Rider adjustment factor to \$0.000724.

Further, the Commission's June 3, 2013 Order in Docket No. E,G002/M-13-161 discontinued the cast iron replacement project reporting, but required Xcel Energy to provide in its next SEP Rider filing:

- a. A comparison by month for the past twelve months for which actual data is available of the actual electric and natural gas costs to the budgeted costs; and
- b. A discussion of reasons for deviations from budgeted amounts (both higher and lower).

On March 1, 2016, Xcel Energy filed its *Petition for Approval of a Modification to the Natural Gas SEP Tariff Rate, 2016 Project Eligibility, 2016 SEP Adjustment Factor, and 2015 SEP Compliance Filing* (Petition) in the present docket to revise the Company's natural gas SEP Rider rates, with a proposed effective date of July 1, 2016. The Company's proposal would raise the natural gas SEP Rider rate from \$0.000724 per therm to \$0.001368 per therm.

Xcel Energy proposed to continue to show the natural gas SEP Rider rate in a separate line item on customer bills entitled "Resource Adjustment." In addition, as discussed in Section II.C.6 below, Xcel Energy proposed to notify its customers of the updated Resource Adjustment with a message on customer bills.

II. DEPARTMENT ANALYSIS

A. COMPLIANCE WITH THE IMPLEMENTATION PROCESS APPROVED IN DOCKET NO. E,G002/M-03-1544

According to the implementation process approved by the Commission in the 03-1544 Order, Xcel Energy is to submit a compliance filing by each March 1 containing the actual and forecasted information needed to determine any true-up amount to be recovered from or returned to ratepayers as a result of the operation of the SEP Rider. The Company is also required to submit a miscellaneous filing to establish new electric and gas SEP Rider rates for the subsequent fiscal year, incorporating amounts anticipated to be incurred and including any true-up amounts from the operation of the SEP Rider during the current year. The Minnesota Department of Commerce, Division of Energy Resources (Department) reviewed the Petition and concludes that Xcel Energy has submitted the information required by the implementation process approved in the 2003 proceeding.

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- Docket No. E,G002/M-13-161;
 - Docket No. E002/M-13-959;
 - Docket No. E,G002/M-14-185; and
 - Docket No. G002/M-15-194.

B. COMPLIANCE WITH THE COMMISSION'S ORDER IN DOCKET NO. E,G002/M-14-185

Xcel Energy's Petition included a comparison between actual and budgeted monthly costs.² The Company stated that actual costs for the past twelve months were \$25,052 lower than forecasted and included a monthly breakout of these costs in the initial filing. The Department reviewed this data and concludes that Xcel Energy has complied with the information requirement from the Commission's June 3, 2014 Order.

C. REASONABLENESS OF THE PROPOSED NATURAL GAS SEP RIDER RATE

1. Energy-Related Mandates

Xcel Energy proposed to include costs associated with two legislative mandates:

- Reliability Administrator (RA),³ and
- Sustainable Building Guidelines (SBG).⁴

The proposed budget includes RA and SBG costs of \$31,557. The Department concludes that the proposed budget for the RA and SBG costs included in Xcel's Petition is reasonable.

2. Cast Iron Replacement Project

In its November 25, 2008 *Order Accepting and Modifying Petition Regarding State Energy Policy Rider* in Docket No. E,G002/M-08-261 (November 25 Order), the Commission approved recovery of costs associated with Xcel Energy's replacement of the remaining cast iron gas pipe on the Company's system through the SEP Rider. Total revenue requirements for the Cast Iron Replacement Project are shown in Attachment D2 to Xcel Energy's March 1, 2016 Petition. As required by the November 25 Order, Xcel Energy included a corresponding operation and maintenance (O&M) credit for savings associated with the Cast Iron Replacement Project of \$72,310 for the 2016 SEP period. As required by the Commission's September 23 Order in Xcel Energy's 2010 SEP Rider filing,⁵ the Company's Attachment D3 details Xcel Energy's O&M credit, which reflects the outcome of the Company's last natural gas rate case (Docket No. G002/GR-09-1153).

The Department concludes that including the costs for the Cast Iron Replacement Project in the SEP tracker account as proposed by Xcel is reasonable.

3. Carbon Offsets

In Xcel Energy's 2008 SEP Rider proceeding, the Commission required that the Company:

² This information has typically been required by past Commission Orders in Xcel Energy's SEP petitions, but was not required by the Commission's most recent Order in Docket No. G002/M-15-194.

³ Minnesota Statute § 216B.62, subd. 3b.

⁴ Minnesota Statute § 216B.241, subd. 1f.

⁵ Docket No. E,G002/M-10-210.

- Report, in all future SEP Rider filings, the sale of any carbon offset or credit for decreased greenhouse gas emissions associated with gas pipe replacement under the Project; and
- Credit the gas SEP tracker account with any proceeds received by the Company from the sale of each carbon offset or credit associated with the Project.

In its Petition, Xcel Energy stated that the Company has not sold any carbon offsets or credits for greenhouse gas emissions associated with natural gas cast iron pipe replacement under the SEP Rider to date; consequently, there are no carbon offsets and/or credits to report, or proceeds to credit to the SEP tracker account. As Xcel Energy noted in its previous SEP Rider filings, the Company began annual reporting to the U.S. Environmental Protection Agency (EPA) of greenhouse gas emissions for all types of natural gas pipe material in September 2012.⁶ Attachment H of Xcel Energy's Petition contains the summary of their EPA report. The Department concludes that Xcel Energy's statements regarding carbon offsets and credits comply with the Commission's requirements on this issue as established in the Company's 2008 SEP Rider proceeding.

4. Relationship to Rate Cases

Attachment F to Xcel Energy's Petition is the Bridge Schedule which shows that the Company did not include SEP revenues or expenses in its last natural gas rate case (Docket No. G002/GR-09-1153).

The Department confirmed Xcel Energy's assertion that the Company's proposed SEP rate factor includes only incremental costs not currently recovered elsewhere in rates.

5. Rate Calculation

Table 1 below summarizes Xcel Energy's calculation of its proposed natural gas SEP Rider rate.

⁶ 40 C.F.R. Part 98, Subparts A and W.

Table 1: Proposed Natural Gas SEP Rider Rate

	Approved 2015	Proposed 2016	\$ Change	% Change
RA/SBG Costs	\$33,524	\$31,557	(\$1,967)	(5.87%)
Cast Iron Pipe Costs	\$1,901,501	\$1,821,962	(\$79,539)	(4.18%)
Cast Iron O&M Credit ⁷	(\$72,310)	(\$72,310)	\$0	0%
Tracker True-up	(\$44,883)	(\$466,208)	(\$421,325)	(938.72%)
Sub-total Costs	\$1,817,832	\$1,315,002	(\$502,830)	(27.66%)
Interdepartmental Sales Revenue Adjustment	(\$1,124,396)	NA	\$1,124,396	NA
Revenue Requirement	\$693,437	1,315,002	\$621,565	89.64%
Therm Sales Forecast	957,634,516	961,310,996	3,676,481	0.38%
Factor per therm	\$0.000724	\$0.001368	\$0.000644	88.95%

As shown in Table 1, Xcel Energy proposed to increase its natural gas SEP Rider rate by 88.95 percent. It should be noted that the approved 2015 SEP Rider rate was unusually low due to a previous error that resulted in the exclusion of \$1,124,369 in revenues collected from interdepartmental sales from reported SEP revenues. . The one-time incorporation of the \$1,124,369 previously unreported revenues into the 2015 tracker resulted in a much lower 2015 SEP Rider rate than would have otherwise been set. Table 2 below demonstrates that, with the exception of the 2015 rate, the proposed 2016 SEP Rider rate is lower than or consistent with recent past rates.

Table 2: Natural Gas SEP Rider Rates

Year	Rate per Therm
Proposed 2016	\$0.001368
2015	\$0.000724
2014	\$0.002238
2013	\$0.002736
2012	\$0.002535
2011	\$0.001320

The Department reviewed Xcel Energy’s calculations and recommends that the Commission allow the Company to recover the requested costs through its SEP Rider.

⁷ Xcel Energy notes in footnote 2 of Attachment D3 of its Petition that the O&M credit approved for 2013 will not change going forward since all replacement work has been completed.

6. *Customer Notice*

The Department notes that Xcel Energy proposed to include the following customer notice when the revised SEP rate takes effect:

We have updated the Resource Adjustment line item on your bill to reflect changes in the State Energy Policy (SEP) portion of the Resource Adjustment, which recovers the costs of State Energy-related mandates and greenhouse gas emissions reductions. The natural gas SEP portion of the Resource Adjustment increased to \$0.001368 per therm.

Other than the updated adjustment factor, Xcel Energy's proposed customer notice is consistent with the notice approved by the Commission in the Company's previous SEP Rider proceedings. Therefore, the Department recommends that the Commission approve Xcel's proposed customer notice.

III. **RECOMMENDATION**

The Department's review of the Company's Petition confirms that it fulfills the Commission's reporting requirements contained in the following Orders:

- *Order Approving State Energy Policy Rider, as Modified* in Docket No. E,G002/M-03-1544, dated April 6, 2004;
- *Order Approving Modification of the Natural As State Energy Policy Tariff Rate, E,G-002/M-14-185 and E,G-002/M-15-194; and*
- *Order Accepting and Modifying Petition Regarding State Energy Policy Rider* in Docket No. E,G002/M-08-261, dated November 25, 2008.

The Department recommends that the Commission:

- Approve the proposed Xcel Energy's proposed 2016-2017 natural gas SEP adjustment factor of \$0.001368/therm;
- Approve the Company's proposed customer notice included in the Petition, adjusted to incorporate the updated adjustment factor; and
- Require Xcel to provide a comparison between actual and budgeted monthly costs in the Company's next SEP Rider filing, including a discussion of reasons for deviations from budgeted amounts (both higher and lower).

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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
Comments**

Docket No. G002/M-16-206

Dated this 29th day of March 2016

/s/Sharon Ferguson

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