Xcel Energy®

414 Nicollet Mall
Minneapolis, MN 55401

February 6, 2015

—Via Electronic Filing—

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

RE: INITIAL FILING
APPROVAL OF A RULE VARIANCE
DOCKET NO. G002/M-15-XXX

Dear Mr. Wolf:

Northern States Power Company, doing business as Xcel Energy, submits to the Minnesota Public Utilities Commission this Petition for approval of a variance to the Purchased Gas Adjustment (PGA) Rules to allow recovery of a storage-related cost of natural gas through the PGA.

Pursuant to Minn. Stat. §216.17, subd. 3, we have electronically filed this document with the Minnesota Public Utilities Commission, and copies have been served on all parties on the attached service list. Please contact Pamela Gibbs at pamela.k.gibbs@xcelenergy.com or (612) 330-2889 or me at paul.lehman@xcelenergy.com or (612) 330-7529 if you have any questions regarding this filing.

Sincerely,

/s/

PAUL J LEHMAN
MANAGER
REGULATORY COMPLIANCE AND FILINGS

Enclosures
c: Service List

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	Chair
Nancy Lange	Commissioner
Dan Lipschultz	Commissioner
John Tuma	Commissioner
Betsy Wergin	Commissioner

IN THE MATTER OF THE PETITION OF NORTHERN STATES POWER COMPANY FOR APPROVAL OF A RULE VARIANCE TO INCLUDE A STATE OF KANSAS STORAGE TAX IN THE PURCHASED GAS ADJUSTMENT

DOCKET NO. G002/M-15-___

PETITION

INTRODUCTION

Northern States Power Company, doing business as Xcel Energy, submits to the Minnesota Public Utilities Commission this Petition for approval of a variance to the Purchased Gas Adjustment (PGA) Rules to allow recovery of a storage-related cost of natural gas – specifically, a property tax on the Company's natural gas stored in the state of Kansas – through the PGA.

Natural gas storage plays a vital role in maintaining the reliability of supply needed to meet the demands of our customers – serving as "insurance" against unforeseen circumstances, such as the 2013 Trans-Canada pipeline issue that threatened natural gas supply for tens of thousands of people, natural disasters, or other occurrences that may affect the production, delivery, or availability of natural gas when it is needed. It also plays a role in providing price stability for customers, as we can accumulate it in summer months when its cost is generally lower for use in peak winter months when prices are generally higher. The year-round reliability and price stability that storage affords have become even more important as we and other utilities shift toward more natural gas-fired electric generation on our systems.

Given its strategic value and practical customer benefits, storage is one method we employ to reduce our exposure to supply and price risks associated with unforeseeable market conditions or events. We generally target approximately 25 percent of our normal winter requirements for storage. In fact, we intend that beginning with the

2013-2014 heating season, storage will cover approximately 100 percent of our winter natural gas electric generation fuel supply requirements.

Minn. Stat. § 216B.16, subd. 7 allows for recovery of "direct costs for natural gas delivered."[1] Similarly, the Commission's rules allow PGA recovery of costs associated with "gas supplies and supply-related services that are a function of the volume of gas taken," as are transportation, commodity gas, and storage-related costs, such as storage injection and withdrawl.[2] In fact, with the exception of the tax on natural gas that we store on the Northern Natural Gas (Northern) system in Kansas, the costs of storage are included as a cost of gas from suppliers and included in the PGA.

This is only an issue because the Kansas storage charges are not part of a bundled service from our natural gas supplier. Specifically, Minn. R. 7825.2400, subd. 12 identifies several FERC accounts that are automatically incorporated by reference into the cost of purchased gas. Although the Commission's rules contemplate PGA recovery of costs associated with natural gas service and storage, an accounting technicality requires the Kansas charges to be classified as a property tax, which is not one of the FERC accounts identified in the Rule.

We have previously sought and been granted variances from the Commission for collection of this direct cost of natural gas delivered. Specifically, in 2005 and 2006, the Commission found that strict enforcement of the definition of the "cost of gas" in Minn. R. 7825.2400, subd. 12 would prevent the Company from recovering tax payments to the State of Kansas on natural gas it held in storage in Kansas. At that time, we were appealing the application of the tax to the Company, so the Commission granted consecutive one-year variances from its Rules. Our appeal of the tax on the Company ultimately prevailed in a 2007 Kansas Supreme Court decision, and we refunded all amounts we had collected from our customers for the overturned tax on storage volumes.

However, due to legislative changes and unforeseen judicial outcomes, we are again incurring property taxes for storage of natural gas on the Northern system in the State of Kansas. Similar to the mid-2000's, we and others vigorously challenged the tax's renewed application to out-of-state utilities. Unfortunately, our available legal challenges were exhausted in October 2014 when the United States Supreme Court denied certiorari, resulting in the tax being upheld.[3]

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[1] Energy and emission control products cost adjustment.
[2] Minn. R. 7825.2400, subp. 6d.
[3] *Missouri Gas Energy v. State of Kansas, Div. of Property Valuation*, 135 S.Ct. 151 (2014).

The taxes applicable during the period of appeals were legally deferred until all legal avenues were exhausted, so we did not seek recovery until we were certain the Company and its customers would incur the tax, which has now occurred. In late 2014, the Kansas counties in which we maintain stored natural gas on the Northern system issued invoices to the Company for the 2009-2014 period. As of the end of 2014, we have incurred approximately $5.5 million of property tax expense for natural gas storage for our Minnesota customers.

In this Petition, we seek a variance to the Commission's PGA rules to allow the Company to collect this storage cost from Minnesota customers. Specifically, we respectfully request that the Commission:

- Grant a four-year variance to Minn. R. 7825.2400, subp. 12 to allow inclusion of the Kansas property tax expense as a component of the cost of gas supply on an ongoing basis (this will collect about $200,000 of amounts incurred through 2014), and
- Allow the Company to collect approximately $5.3 million of amounts it has incurred on behalf of Minnesota customers for natural gas storage for the 2009 through October 2014 period as a lump sum over a 12-month timeframe through the PGA.

We estimate that the cost to customers of our proposal is a one-time annual cost of approximately $6.40, and an ongoing cost of approximately $1.00 per year.

Although we do not anticipate that this tax will go away, we request a time-limited variance. A four-year variance period is consistent with the variance period the Commission has established with another natural gas variance request (for hedging) and will afford the Commission and stakeholders increased transparency into the inclusion of this tax in the PGA.

In this Petition, we describe why it is appropriate to recover this tax as part of the PGA, our efforts to appeal the application of this tax to natural gas we hold in storage on the Northern system, , and how we propose to recover the amounts we incur through the PGA.

I. SUMMARY OF FILING

Pursuant to Minn. R. 7829.1300, subp. 1, a one-paragraph summary of the filing accompanies this Petition.

II. SERVICE ON OTHER PARTIES

Pursuant to Minn. R. 7829.1300, subp. 2, Xcel Energy has served a copy of this petition on the Department of Commerce and the Office of the Attorney General – Antitrust and Utilities Division. A summary of the filing has been served on all parties on Xcel Energy's miscellaneous gas service list.

III. GENERAL FILING INFORMATION

Pursuant to Minn. R. 7829.1300, subp. 3, the Company provides the following information.

A. Name, Address, and Telephone Number of Utility

Northern States Power Company
414 Nicollet Mall
Minneapolis, MN 55401
(612) 330-5500

B. Name, Address, and Telephone Number of Utility Attorney

Alison Archer
Assistant General Counsel
Xcel Energy
414 Nicollet Mall, 5th Floor
Minneapolis, MN 55401
(612) 215-4662

C. Date of Filing and Date Modified Rates Take Effect

The date of this filing is February 6, 2015. The Company respectfully requests that the Commission approve a four-year variance to its rules as proposed by the Company.

D. Statute Controlling Schedule for Processing the Filing

The applicable statute is Minn. Stat. § 216B.16, subd. 7, which governs the recovery of costs through energy cost adjustment clauses. The proposed variance to Minn. R. 7825.2400, subp. 12 discussed in the Petition falls within the definition of a Miscellaneous Tariff Filing, under Minn. R. 7829.0100, subp. 11, because no determination of Xcel Energy's general revenue requirement is necessary. Minn. R. 7829.1400, subps. 1-4 permits comments in response to a miscellaneous filing within 30 days of filing, with reply comments 10 days thereafter.

E. Utility Employee Responsible for Filing

Paul J Lehman
Manager, Regulatory Compliance and Filings
Xcel Energy
414 Nicollet Mall, 7th Floor
Minneapolis, MN 55401
(612) 330-7529

IV. MISCELLANEOUS INFORMATION

Pursuant to Minn. R. 7829.0700, the Company requests that the following persons be placed on the Commission's official service list for this proceeding:

Alison Archer
Assistant General Counsel
Xcel Energy
414 Nicollet Mall, 5th floor
Minneapolis, MN 55401
alison.c.archer@xcelenergy.com

Tiffany Hughes
Records Analyst
Xcel Energy
414 Nicollet Mall, 7th Floor
Minneapolis, MN 55401
regulatory.records@xcelenergy.com

Any information requests in this proceeding should be submitted to Tiffany Hughes at the Regulatory Records email address above.

V. DESCRIPTION AND PURPOSE OF FILING

The Company requests approval of a variance from Minn. R. 7825.2400, subp. 12, which specifies the FERC accounts automatically included in the "cost of purchased gas," to allow recovery of the Kansas property tax on the Company's natural gas stored in the state of Kansas through the PGA tariff provisions contained in the Company's Natural Gas Rate Book.

A. Background

The State of Kansas has had a property tax on underground storage inventories for many years. Initially the tax was assessed against interstate natural gas pipelines that performed natural gas storage, transportation, and distribution services in the state.

Prior to implementation of Federal Energy Regulatory Commission (FERC) restructuring of interstate gas pipeline services in Order No. 436 in the mid-1980s and

Order No. 636 in the early 1990s, interstate gas pipelines like Northern provided a "bundled" merchant function and generally held title to all gas that it stored and transported through its pipeline system. At that time, the Kansas property tax was included in the cost of gas sold to LDCs such as the Company by Northern. We then booked this cost as part of the delivered cost of gas to the appropriate PGA accounts and recovered that cost from retail customers through the PGA and annual PGA true-up.

During the time that the merchant function was bundled, the interstate pipelines challenged the Kansas property tax on underground storage inventories, and Orders in 1993 and 1997 affirmed that producers should issue refunds to the interstate pipelines for the tax (for gas sold from Oct-83 thru Jun-89). In the late 1990s, the interstate pipelines received refunds of the taxes collected by producers and started the refund process to the LDCs, with the Company refunding its customers in 2003.

However, beginning in the early 1990s, an outcome of FERC's natural gas industry restructuring initiatives was that the Company was required to purchase its own gas supplies and transport these supplies on Northern (and other pipelines) under gas transportation service agreements. In addition, we contracted directly for storage services from Northern (and other service providers). Consequently, ownership of the gas in storage in Kansas shifted from Northern to LDCs such as the Company. With this change in ownership came the potential responsibility/cost for state taxes assessed on the natural gas. Starting in 1993, as an out-of-state LDC, we were exempt from property tax on our gas inventories stored in Kansas due to a general exemption contained in the Kansas Constitution.

Then in May 2004, the State of Kansas enacted legislation that taxed owners of natural gas commodities stored in Kansas for resale in other states, effectively removing the exemption that had historically applied to the Company and other out-of-state LDCs. We, along with a large group of other utilities, challenged the tax and eventually the issue was resolved in our favor by the Kansas Supreme Court on July 13, 2007. During the time that Kansas was assessing the tax, we petitioned for and received variances from the Commission's Rules and collected for the tax through the PGA.[4] After the tax was overturned, we refunded all of the money collected for the tax to our customers in the fall of 2007.

In 2009, the Kansas legislature modified the enabling statute, noting it was carrying out what the 2004 legislature intended, to allow collection of this inventory tax from

[4] Docket Nos. G002/M-05-534, G002/M-06-905, and G002/M-07-621.

public utilities based outside of Kansas effective July 1, 2009.[5] Similar to 2004, we and six other utilities storing gas in a Northern underground storage facility challenged the application of the tax to out-of-state public utilities. We appealed first to the Court of Tax Appeals, then to the Kansas Supreme Court, and finally to the Supreme Court of the United States of America (SCOTUS). However, on October 6, 2014, SCOTUS denied certiorari, resulting in the tax being upheld – and marking the end of our available legal avenues to challenge the tax's applicability to the Company.

With our legal avenues fully exhausted, all tax amounts from the point of the 2009 statutory change to the present became due. Starting in late October 2014, we began receiving invoices from Kansas counties for the 2009-2014 timeframe; to-date, we have incurred storage expenses of approximately $6.2 million on an NSPM operating company basis.

B. The Tax on Storage Volumes is a Cost of Gas

Minn. Stat. § 216b.16, subd. 7 permits "automatic adjustment of charges for public utility service in direct relation to changes in…(2) direct costs for natural gas delivered." Similarly, Minn. R. 7825.2400, subd. 6d defines "commodity-delivered gas cost" as the "portion of the cost of purchased gas charged a distributing gas utility for its gas supplies and supply-related services…that is a function of the volume of gas taken." The Kansas tax perfectly fits this description.

The Kansas tax is based on the volume and prevailing market price of the natural gas we have held in storage for our customers. It is a direct cost of natural gas delivered, and is one component of the costs of purchased gas that we incur on behalf of our customers. The reason for this Petition, and our request for a variance, is because of an accounting technicality. The State of Kansas classifies the charge as a property tax – and property taxes are not included in the identified FERC accounts eligible for automatic recovery through the PGA as specified in Minn. R. 7825.2400, subd. 12. Accordingly, it is reasonable for the Company to request recovery of this cost through the PGA.

1. Storage Costs are a Legitimate Cost of Purchased Gas

Since FERC Order 636 opened up the natural gas market to deregulation in 1992, storage can be used by industry participants for commercial reasons, rather than just to meet the operational requirements of the pipelines and needs of the utilities, as it was in the past. While this allows for the ability to store gas when prices are low and

[5] K.S.A § 79-5a01.

withdraw and sell it when prices are high, we use storage solely to mitigate reliability and price risks for our customers – and always only charge customers the actual cost of the gas at the time it was put into storage.

As discussed earlier, natural gas storage plays a vital role in our resource acquisition strategy in maintaining a cost-effective and reliable supply of natural gas to meet the demands of our customers. This type of year-round reliability and price stability have become even more important as we and other utilities shift toward more natural gas-fired electric generation on our systems. In fact, beginning with the 2013-2014 heating season, we have planned to cover all of our winter natural gas electric generation fuel supply requirements with storage.

Storage is a prudent natural gas resource strategy that provides significant benefits for our customers. One hundred percent of its cost should be borne by customers through the PGA as a cost of natural gas service.

2. Kansas Storage Charges are Volume- and Price-Based

The Kansas storage charges are classified as a property tax. However, the State of Kansas determines the amounts due by calculating 33 percent of the inventory's fair market value as of January 1 of each year. The tax, therefore, is based on the volume of gas held in storage and the prevailing market price of that gas at a point in time. This is specifically the type of natural gas service cost contemplated in statute and the Commission's rules – and which lends itself to an annually-adjusted volumetric recovery mechanism like other components of the PGA.

Traditionally, property taxes are recovered in base rates, and gas costs, which are volume- and price-based are recovered through the PGA. As noted above, Minn. R. 7825.2400, subd. 12 specifies the FERC accounts that are designated for recovery through the PGA. According to FERC's Uniform System of Accounts, property taxes are recorded in Account 408.1, which is not among those specified.[6] The volumetric and market price basis of the Kansas tax directly impacts the total "direct cost of natural gas delivered" of the gas we hold in underground storage on the Northern system, which is the standard for automatic recovery in Minn. Stat. § 216B.16, subd. 7. Thus, it is an accounting technicality that prevents the Company from automatically including these costs in its PGA, and for which we request this variance.

[6] Minn. R. 7825.2400, subp. 12 specifies allowable PGA expenses as those recorded in the following FERC accounts: 800, 801, 802, 803, 804, 804.1, 805, 808.1, 810, 854, and 858.

3. The Commission has Specifically Approved Variances to the PGA Rules for Recovery of Storage Costs Previously

As noted previously, the Commission approved variance requests for the Company to collect the Kansas tax through the PGA in 2005 and 2006. We had a Petition requesting the extension of the variance pending in 2007 that we withdrew upon prevailing in our legal challenge of the tax's application to the Company.

The Commission has also previously considered and granted PGA variances to recover other costs associated with Storage that were not accounted for in gas-specific FERC Accounts. Specifically, in Docket No. G002/M-90-630, the Commission granted the Company a variance to include carrying charges on gas storage inventory volumes as a cost in its PGA. In that case, the Commission acknowledged its prior exploration and finding that storage service is of benefit to Minnesota consumers by lowering costs and providing greater reliability and flexibility of gas supply – noting that it would as a matter of policy encourage well-designed programs that provide incentives for use of storage.[7]

In its Order, the Commission found that carrying costs associated with gas storage inventories are a direct cost of providing natural gas, which it then had discretion to allow recovery either through rates or the PGA. It concluded that allowing recovery through the PGA was within the statutory intent of the PGA – and determined that timely recovery through the PGA rather than base rates would incent the Company to maintain an appropriate reliance on storage services on behalf of its customers. They also determined that PGA recovery was appropriate because carrying costs included in the unbundled cost of gas from a supplier who combines gas sales and storage functions would be recovered in the PGA, so it would be appropriate to recover separate carrying charges on gas storage inventories in the same manner.

These circumstances apply in the case of the Kansas tax on storage inventories. Natural gas storage continues to be in the public interest. The Kansas tax on gas inventory volumes is a direct cost of gas, and would be "automatically" included in PGA recovery if natural gas sales and storage were a bundled service from a gas supplier. Finally, timely recovery of prudently-incurred direct costs of gas sends appropriate price signals to customers, affords the Company an appropriate incentive to continue to utilize storage as part of its natural gas resource acquisition strategy, and provides the Company with timely recovery of prudently-incurred direct costs of gas delivered as contemplated in statute.

[7] Order at 4 (April 4, 1991).

C. The Requested Variance is in the Public Interest

We request that the Commission approve a four-year variance to Minn. R. 7825.2400, subp. 12, which specifies a set of FERC accounts that traditionally defines the "cost of purchased gas," to allow for PGA recovery of the Kansas tax from our customers. Specifically, we request the Commission to allow: (1) recovery of the 2009 through October 2014 costs incurred after the SCOTUS ruling over a 12-month period; and (2) ongoing recovery of the annual costs beginning with November 2014 on a monthly basis through the PGA for a four-year variance period. In this section, we discuss how our request meets the Commission's requirements for a variance, and in Section D, discuss the mechanics of our proposed PGA recovery and estimated customer impacts.

Minn. R. 7829.3200 provides that the Commission may grant a variance to its rules if it finds:

- 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.

Our request meets these standards, as discussed below.

1. Enforcement of the Rule Would Prevent the Company from Timely Recovery of Prudently-Incurred Costs of Providing Natural Gas Service

Not allowing the Company recovery of the Kansas property tax through the PGA would impose an excessive burden on the Company. The tax is a prudently-incurred cost that is directly-related to securing a prudent natural gas supply portfolio, which is necessary to provide reliable and cost-effective natural gas service to our customers.[8] To require the Company to absorb this cost until it can be included in base rates would unfairly penalize the Company for a direct cost of gas over which the Company has no control.

2. The Public Interest is Served When the Company Engages in Prudent Resource Strategies

Granting the variance would encourage the Company to continue to use storage as a

[8] The portfolio is annually reviewed and approved by the Commission pursuant to Minn. R. 7825.2910, subp. 2.

part of its natural gas resource acquisition strategy – providing customers price stability and a hedge against the risk of supply disruptions from unforeseen circumstances. Additionally, granting the variance to recover the costs through the PGA would not adversely affect the public interest, since the tax is a direct cost for natural gas delivered; it is in the public interest for customers to pay the actual costs associated with purchased gas, as such prices promote efficient use of natural gas.

3. There is No Conflict with the Law

Granting the variance is not in conflict with standards imposed by law. Minn. Stat. § 216B.16, subd. 7 allows for recovery of "the direct cost of natural gas delivered." As we have demonstrated, the Kansas tax is based on the volume of gas held in storage for customers and the prevailing market price of that gas, making it a direct cost of gas for which the costs are appropriately recovered through the PGA In addition, Minn. R. 7825.2400, subp. 12, provides that the "cost of purchased gas" includes "the normal and ordinary cost of injection and withdrawal of gas from storage…" While the tax is not a direct cost of injection or withdrawal and thus does not explicitly fall within the language of the rule, the rule clearly contemplates gas storage costs. Further, as we have discussed, the Commission has previously considered and granted PGA recovery of this specific Kansas tax and other storage-related costs in the past. We are not aware of any other legal standard that precludes the Commission from approving this variance at this time.

D. PGA Recovery Mechanics

As we have discussed, the costs we have incurred for storage of natural gas held in Kansas on the Northern system for our customers is a prudently incurred cost of gas. In this section, we outline the methodologies and estimated customer impacts of our proposed recovery of the amounts we have incurred post-SCOTUS decision, which exhausted all of our available legal challenges of this tax to the Company. We additionally provide a breakdown of amounts we have incurred for the various periods as Attachment A and a more detailed outline of our proposed recovery mechanics as Attachments B and C.

1. Ongoing Recovery of Annual Costs

Based on actual taxes incurred for the 2009-2014 period and current natural gas futures, we expect Minnesota's portion of 2015 costs to be approximately $800,000 to $900,000. We note that for the last several years, the amount of gas we have held in storage has been relatively consistent, so if natural gas prices remain relatively flat, this range of cost is what we would expect to incur on an annual basis. Within this range of annual cost, an average customer using 847 therms would incur an additional annual cost of approximately $1.00.

Upon Commission approval of this request for variance, we plan to include the cost of this tax for recovery in the first monthly PGA practicable. We outline our proposed methodology to recover this expense below, and provide as Attachment B how the Minnesota portion of the Kansas tax expenses will be calculated for the PGA:

- The Company is billed for a year's tax in December, based on the value of the gas held in storage on January 1 of the year. We will use the prior year's actual tax amount as proxy for the current year. For example, we were billed in December 2014 for 2014 taxes. We plan to use the 2014 annual amount in 2015 PGA filings to calculate the amount of tax to include in the PGA monthly.
- In the PGA, we will allocate the annual tax expense to month by the forecasted volumetric sales to retail customers. The monthly cost will be added to the monthly PGA commodity cost.
- As with the Company's other gas costs, any over- or under-recovery of the tax obligations will be captured through the annual PGA True-up factors. In annual PGA True-ups, we will use the monthly expense amounts included in the PGA. In the first annual PGA True-up after the recovery has been approved, we will calculate the Kansas tax expenses for the months between when the tax is effective and when we were authorized to collect the tax using the same methodology that we would have used in the PGA on an ongoing basis. For example, if the tax is effective November 2014, but is not included in the PGA until June 2015, we will calculate the Kansas tax expense for November 2014 through May 2015 for use in the annual PGA True-up.
- To facilitate transparent review of our PGAs, we will reflect the tax cost as a separate line item in our monthly PGA, Annual Automatic Adjustment of Charges (AAA), and annual PGA True-up filings.

2. Lump Sum Recovery of 2009 through October 2014

Minnesota's portion of the actual taxes we have incurred for the 2009 to October 2014 period is approximately $5.3 million. Upon Commission approval of this request for a variance, we will begin recovering this tax amount as a lump-sum over the 12-month period of July 2015 through June 2016. For a typical customer using 847 therms, the one-time annual cost will be approximately $6.40.

We propose to collect the lump sum over the July 2015 through June 2016 for two reasons: (1) the accounting will be cleaner if the 12-month period is matched with a True-up year; and (2) we currently have in place very large annual True-up factors due to last winter's cold temperatures and high natural gas commodity costs. For this reason, particularly, it would be less burdensome to customers to include the lump sum recovery in the next True-up year.

Our proposed methodology to recover this lump sum expense is similar to our proposed methodology to recover the ongoing expense. We outline the methodology below and provide an illustration in Attachment C:

- We will allocate the lump sum tax expense to month by the forecasted volumetric sales to Retail customers. The monthly cost will be added to the monthly PGA commodity cost.
- Any over- or under-recovery of the lump sum tax obligation will be captured through the annual PGA True-up factors.
- We will reflect the lump sum tax cost as a separate line item in our monthly PGA and annual PGA True-up filings.

VI. EFFECT OF CHANGE UPON XCEL ENERGY REVENUE

There is no effect on the Company's revenue by granting this variance. The Company's tax expense would completely offset its increased natural gas sales revenue, leaving no net change.

CONCLUSION

Xcel Energy respectfully requests that the Commission:

- Grant a four-year variance to Minn. R. 7825.2400, subp. 12 to allow inclusion of the Kansas property tax expense as a component of the cost of gas supply, and
- Allow the Company to collect approximately $5.3 million of amounts it has incurred on behalf of Minnesota customers for natural gas storage for the 2009 through October 2014 period as a lump sum over a 12-month timeframe through the PGA.

Recovery of this tax through the PGA is consistent with the overall intent of Minn. Stat. § 216B.16, subd. 7 and the Commission's PGA Rules, as the tax is directly associated with the cost of natural gas delivered to our customers. The public interest is served when retail natural gas rates accurately reflect the actual cost of service, and when the Company engages in prudent practices that cost-effectively shield customers from potential price fluctuations and supply disruptions from unforeseen circumstances. Conversely, not granting the requested variance would financially penalize the Company for a prudently-incurred cost of providing natural gas service to its customers.

Dated: February 6, 2015

Northern States Power Company

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	Chair
Nancy Lange	Commissioner
Dan Lipschultz	Commissioner
John Tuma	Commissioner
Betsy Wergin	Commissioner

IN THE MATTER OF THE PETITION OF NORTHERN STATES POWER COMPANY FOR APPROVAL OF A RULE VARIANCE TO INCLUDE A STATE OF KANSAS STORAGE TAX IN THE PURCHASED GAS ADJUSTMENT	DOCKET NO. G002/M-15-___ **PETITION**

SUMMARY OF FILING

Please take notice that on February 6, 2015, Northern States Power Company, doing business as Xcel Energy, filed with the Minnesota Public Utilities Commission a Petition for approval of a four-year variance from Minn. R. 7825.2400, subp. 12, to allow for recovery in the Purchased Gas Adjustment property taxes assessed on natural gas held in storage in the state of Kansas since the tax is a "direct cost of natural gas delivered" pursuant to Minn. Stat. § 216B.16, subd. 7.

KANDAS PROPERTY TAX ON NATURAL GAS STORAGE

Tax Year	MN-Company* Accrued	MN-Company* Billed and Paid	MN-State % of Forecasted Sales	MN-State Accrued	**MN-State Billed and Paid**
2009	$975,000	$1,037,350	89.41%	$871,748	**$927,495**
2010	$1,252,000	$1,300,234	89.49%	$1,120,415	**$1,163,580**
2011	$1,005,000	$1,061,257	88.66%	$891,033	**$940,910**
2012	$988,000	$953,150	88.25%	$871,910	**$841,155**
2013	$981,000	$950,020	87.85%	$861,809	**$834,593**
2014	$1,000,000	$913,451	87.15%	$871,500	**$796,073**
	$6,201,000	$6,215,463		$5,488,414	**$5,503,806**

Amount of 2014 taxes proposed to be collected in Monthly PGA rates (See Attachment B)
November and December 2014
$208,099

Total taxes proposed to be collected as a lump sum over 12-months in the PGA
2009 - 2014 taxes minus the 2014 taxes proposed to be collected in the Monthly PGA rate
$5,295,706

*MN-Company includes gas operations in Minnesota and North Dakota

PROPOSED PGA CALCULATION OF MONTHLY KANSAS TAX

Minnesota Company (Minnesota and North Dakota)

Annual KS Tax Obligation	$913,451	2014 billed amount
Annual Forecasted Sales (thm)	783,848,390	Sept-14 - Aug-15, in use in PGA
KS Tax Rate ($/thm)	$0.001165	

The KS Tax Rate will change in September when we updated the sales forecast and in January when we update the Annual KS Tax Obligation.

Minnesota State

Month	Forecasted Sales (thm) (PGA, Schedule A, Page 6)	Monthly KS Tax Expense (KS Tax Rate * Forecasted Sales)	Total Commodity COG in PGA (as filed, does not include KS Tax)	KS Tax As a % of Commodity COG
Jul-14	17,014,330	n/a	$8,016,436	
Aug-14	17,956,012	n/a	$7,068,099	
Sep-14	20,160,965	n/a	$8,158,230	
Oct-14	38,578,004	n/a	$15,691,635	
Nov-14	74,081,430	$86,305	$31,061,531	0.28%
Dec-14	104,544,695	$121,795	$51,837,747	0.23%
Jan-15	120,119,127	$139,939	$48,342,849	0.29%
Feb-15	101,504,289	$118,252		
Mar-15	83,480,278	$97,255		
Apr-15	50,821,362	$59,207		
May-15	32,059,295	$37,349		
Jun-15	20,862,133	$24,304		
	681,181,919	$684,406		

PROPOSED DERIVATION OF PGA COSTS WITH MONTHLY INCLUSION OF KANSAS TAX

PGA filing - Schedule A, Page 3 of 6

January 1, 2015 - adjusted for proposed Kansas monthly property tax inclusion

	Demand Cost (Res, Sm & Lg Commercial Firm)	Annual Cost	Winter Cost	Total	
1.	MN & ND Total Demand (Sch B, Pg 2)	$31,647,224	$23,657,516		
2.	x Minnesota Design Day Ratio (2014 Demand Entitlement Filing)	88.42%	88.42%		
3.	Annual System Demand Allocation to MN	$27,982,475	$20,917,976		
4.	MN State Design Day (2014 Demand Entitlement Filing)	715,945	715,945		
5.	- Small & Large Demand Billed Dkt (2014 Demand Entitlement Filing)	21,803	21,803		
6.	Non-Demand Billed Design Day Dkt	694,142	694,142		
7.	Non-Demand Billed Allocation (3 x 6 / 4)	$27,130,312	$20,280,951		
8.	Demand Billed Cost Allocation (3 - 7)	$852,163	$637,025		
9.	MN Annual / Seasonal Firm Therm Sales (Sch A, Pg 6)	538,954,024	403,492,517		
10.	Demand Unit Cost $/Therm (7 / 9)	$0.05034	$0.05026	$0.10060	
11.	Demand Cost True-up - Residential (Page 4) Oct-May (Sch A, Pg 4)			($0.00936)	
12.	Demand Cost True-up - Commercial (Page 4) Oct-May (Sch A, Pg 4)			($0.00936)	
13.	Total Demand Rate - Residential (10 +11)			$0.09124	
14.	Total Demand Rate -Commercial (10 + 12)			$0.09124	
	Demand Cost (Demand Billed)				
15.	Cost Allocated to Demand Billed (8)	$852,163	$637,025	$1,489,188	
16.	/ Annual Contract Billing Demand Therms (Line 9 x 12 months x 10)			2,616,360	
17.	Monthly Commercial Demand Billed Demand Rate $/Therm			$0.56918	
	Commodity Costs			Monthly Cost	
18.	NNG Annual/Best Effort/Viking/WBI/Xcel Energy Pk Shv (Sch C, Pg 2)			$55,439,047	
19.	x MN Portion of Monthly Retail Sales			87.20%	
20.	MN Portion of Monthly Commodity Costs			$48,342,849	
21.	+ Kansas Property Tax on Gas Inventory (Docket No. G002/M-15-_____)			$139,939	*new line
22.	Total Minnesota Monthly Commodity Costs			$48,482,788	*new line
23.	MN Budgeted Calendar Month Retail Therm Sales (Sch A, Pg 6)			120,119,127	
24.	Commodity Unit Cost $/Therm (22 / 23)			$0.403623	
	Total Gas Cost per Therm				
25.	Residential (13 + 24)			**$0.494863**	
26.	Small & Large Commercial (14 +24)			**$0.494863**	
27.	Small & Large Demand Billed - Demand (17)			**$0.569180**	
28.	Small & Large Demand Billed - Commodity; All Interruptible (24)			**$0.403623**	

PROPOSED PGA CALCULATION OF LUMP SUM KANSAS TAX

Minnesota State

Lump Sum KS Tax Obligation	$5,295,706	See Attachment A
Annual Forecasted Sales (thm)	700,635,245	July-15 - June-16
KS Tax Rate ($/thm)	$0.007558	

Month	Forecasted Sales (thm) (PGA, Schedule A, Page 6)	Monthly KS Tax Expense (KS Tax Rate * Forecasted Sales)
Jul-15	17,850,188	$134,912
Aug-15	18,550,160	$140,202
Sep-15	20,598,763	$155,685
Oct-15	39,542,287	$298,861
Nov-15	74,411,045	$562,399
Dec-15	107,540,576	$812,792
Jan-16	125,898,819	$951,543
Feb-16	107,515,607	$812,603
Mar-16	85,591,386	$646,900
Apr-16	53,613,267	$405,209
May-16	31,608,690	$238,898
Jun-16	17,914,456	$135,397
	700,635,245	$5,295,401

Northern States Power Company | Docket No. G002/M-15-_____
PROPOSED DERIVATION OF PGA COSTS WITH | KS Tax Variance Petition
MONTHLY AND LUMP SUM INCLUSION OF KANSAS TAX | Attachment C
PGA filing - Schedule A, Page 3 of 6 | Page 2 of 2
January 1, 2015 - adjusted for proposed Kansas monthly property tax inclusion

	Demand Cost (Res, Sm & Lg Commercial Firm)	Annual Cost	Winter Cost	Total	
1.	MN & ND Total Demand (Sch B, Pg 2)	$31,647,224	$23,657,516		
2.	x Minnesota Design Day Ratio (2014 Demand Entitlement Filing)	88.42%	88.42%		
3.	Annual System Demand Allocation to MN	$27,982,475	$20,917,976		
4.	MN State Design Day (2014 Demand Entitlement Filing)	715,945	715,945		
5.	- Small & Large Demand Billed Dkt (2014 Demand Entitlement Filing)	21,803	21,803		
6.	Non-Demand Billed Design Day Dkt	694,142	694,142		
7.	Non-Demand Billed Allocation (3 x 6 / 4)	$27,130,312	$20,280,951		
8.	Demand Billed Cost Allocation (3 - 7)	$852,163	$637,025		
9.	MN Annual / Seasonal Firm Therm Sales (Sch A, Pg 6)	538,954,024	403,492,517		
10.	Demand Unit Cost $/Therm (7 / 9)	$0.05034	$0.05026	$0.10060	
11.	Demand Cost True-up - Residential (Page 4) Oct-May (Sch A, Pg 4)			($0.00936)	
12.	Demand Cost True-up - Commercial (Page 4) Oct-May (Sch A, Pg 4)			($0.00936)	
13.	Total Demand Rate - Residential (10 +11)			$0.09124	
14.	Total Demand Rate -Commercial (10 + 12)			$0.09124	
	Demand Cost (Demand Billed)				
15.	Cost Allocated to Demand Billed (8)	$852,163	$637,025	$1,489,188	
16.	/ Annual Contract Billing Demand Therms (Line 9 x 12 months x 10)			2,616,360	
17.	Monthly Commercial Demand Billed Demand Rate $/Therm			$0.56918	
	Commodity Costs			Monthly Cost	
18.	NNG Annual/Best Effort/Viking/WBI/Xcel Energy Pk Shv (Sch C, Pg 2)			$55,439,047	
19.	x MN Portion of Monthly Retail Sales			87.20%	
20.	MN Portion of Monthly Commodity Costs			$48,342,849	
21.	+ Kansas Property Tax on Gas Inventory (Docket No. G002/M-15-____)			$139,939	*new line
22.	+ 2009 - Oct-2014 Kansas Property Tax on Gas Inventory (Docket No. G002/M-15-____)			$907,860	*new line
23.	Total Minnesota Monthly Commodity Costs			$49,390,648	*new line
24.	MN Budgeted Calendar Month Retail Therm Sales (Sch A, Pg 6)			120,119,127	
25.	Commodity Unit Cost $/Therm (22 / 23)			$0.411181	
	Total Gas Cost per Therm				
26.	Residential (13 + 24)			**$0.502421**	
27.	Small & Large Commercial (14 +24)			**$0.502421**	
28.	Small & Large Demand Billed - Demand (17)			**$0.569180**	
29.	Small & Large Demand Billed - Commodity; All Interruptible (24)			**$0.411181**	

CERTIFICATE OF SERVICE

I, Tiffany Hughes, hereby certify that I have this day served copies or summaries 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 NOS. G002/M-15-XXX & XCEL ENERGY MISC GAS

Dated this 6th day of February 2015.

/s/

____

Tiffany Hughes

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	No	GEN_SL_Northern States Power Company dba Xcel Energy-Gas_Xcel Miscl Gas
Jeffrey A.	Daugherty	jeffrey.daugherty@centerpointenergy.com	CenterPoint Energy	800 LaSalle Ave Minneapolis, MN 55402	Electronic Service	No	GEN_SL_Northern States Power Company dba Xcel Energy-Gas_Xcel Miscl Gas
Ian	Dobson	ian.dobson@ag.state.mn.us	Office of the Attorney General-RUD	Antitrust and Utilities Division 445 Minnesota Street, 1400 BRM Tower St. Paul, MN 55101	Electronic Service	No	GEN_SL_Northern States Power Company dba Xcel Energy-Gas_Xcel Miscl Gas
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	No	GEN_SL_Northern States Power Company dba Xcel Energy-Gas_Xcel Miscl Gas
Todd J.	Guerrero	todd.guerrero@kutakrock.com	Kutak Rock LLP	Suite 1750 220 South Sixth Street Minneapolis, MN 554021425	Electronic Service	No	GEN_SL_Northern States Power Company dba Xcel Energy-Gas_Xcel Miscl Gas
Sandra	Hofstetter	N/A	MN Chamber of Commerce	7261 County Road H Fremont, WI 54940-9317	Paper Service	No	GEN_SL_Northern States Power Company dba Xcel Energy-Gas_Xcel Miscl Gas
Michael	Hoppe	il23@mtn.org	Local Union 23, I.B.E.W.	932 Payne Avenue St. Paul, MN 55130	Electronic Service	No	GEN_SL_Northern States Power Company dba Xcel Energy-Gas_Xcel Miscl Gas
Tiffany	Hughes	Regulatory.Records@xcelenergy.com	Xcel Energy	414 Nicollet Mall FL 7 Minneapolis, MN 554011993	Electronic Service	No	GEN_SL_Northern States Power Company dba Xcel Energy-Gas_Xcel Miscl Gas
Richard	Johnson	Rick.Johnson@lawmoss.com	Moss & Barnett	150 S. 5th Street Suite 1200 Minneapolis, MN 55402	Electronic Service	No	GEN_SL_Northern States Power Company dba Xcel Energy-Gas_Xcel Miscl Gas
Michael	Krikava	mkrikava@briggs.com	Briggs And Morgan, P.A.	2200 IDS Center 80 S 8th St Minneapolis, MN 55402	Electronic Service	No	GEN_SL_Northern States Power Company dba Xcel Energy-Gas_Xcel Miscl Gas

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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	No	GEN_SL_Northern States Power Company dba Xcel Energy-Gas_Xcel Miscl Gas
Andrew	Moratzka	apmoratzka@stoel.com	Stoel Rives LLP	33 South Sixth Street Suite 4200 Minneapolis, MN 55402	Electronic Service	No	GEN_SL_Northern States Power Company dba Xcel Energy-Gas_Xcel Miscl Gas
David W.	Niles	david.niles@avantenergy.com	Minnesota Municipal Power Agency	Suite 300 200 South Sixth Street Minneapolis, MN 55402	Electronic Service	No	GEN_SL_Northern States Power Company dba Xcel Energy-Gas_Xcel Miscl Gas
Daniel P	Wolf	dan.wolf@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 551012147	Electronic Service	No	GEN_SL_Northern States Power Company dba Xcel Energy-Gas_Xcel Miscl Gas