

February 11, 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-16-40

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 (Xcel) for Approval of Extension
Surcharge for Ulen and Hitterdal.

The Petition was filed on January 12, 2016 by:

Amy Liberkowski
Manager, Regulatory Analysis
Xcel Energy
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(612) 330-6613

As discussed in greater detail in the attached Comments, the Department recommends that the Minnesota Public Utilities Commission (Commission) approve Xcel's Petition.

The Department is available to answer any questions that the Commission may have in this matter.

Sincerely,

/s/ LAURA B. OTIS
Rates Analyst
651-539-1828

LBO/ja
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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

DOCKET No. G002/M-16-40

I. INTRODUCTION

On January 12, 2016, Northern States Power Company (Xcel or the Company) requested approval of an Extension Surcharge (ES) Rider for the communities of Ulen and Hitterdal, Minnesota, along with surrounding townships.

In addition to this request, the Company also requested tariff changes to acknowledge the inclusion of Elmdale township in the Holdingford ES and the Spring Prairie, Barnesville, and Cromwell townships in the Barnesville ES. The Barnesville and Holdingford ES's were approved in Docket No. G002/M-14-583.

I. BACKGROUND AND SUMMARY OF PROPOSAL

On May 13, 1994, the Minnesota Public Utilities Commission (Commission) approved a request from Xcel to add a New Area Surcharge Rider (NAS Rider) to its tariff.¹ Xcel's New Area Surcharge Rider enables the Company to extend service into a new area that would be uneconomic to serve at tariffed rates. The most recent version of this tariff was approved by the Commission in its July 10, 2015 order in Docket No. G002/M-15-195.

The Extension Surcharge Rider was instituted in 2015. On March 2, 2015, the Company proposed a new accounting treatment and terms for service extension where a third party constructs the transmission facilities and Xcel enters into a demand entitlement contract with the third party to pay for the pipeline construction.² The Commission approved the Company's proposal on July 10, 2015. The Commission has approved new gas service for the communities of Pillager, Barnesville, and Holdingford, Minnesota, with the latter two communities and surrounding areas taking service under the new ES tariff.^{2,3}

¹ Docket No. G002/M-94-156

² Docket No. G002/M-15-195.

³ Docket No. G002/M-14-583.

On January 12, 2016, Xcel filed a petition for approval to provide service to the cities of Ulen and Hitterdal and the townships of Goose Prairie, Ulen, and Highland Grove under the governance of the ES tariff. Included in this petition is a request to modify the terms of the ES Rider tariff for the communities of Ulen and Hitterdal and a request to assume the existing Firm Transportation Agreement (Agreement) between Greater Minnesota Transmission (GMT) and West Central Ag Services (WCAS).⁴

Xcel requested that the Commission approve its Petition prior to construction season so that the Company can complete work in time for customers to receive gas service in the next winter heating season. Specifically, the Company requested approval by May 15, 2016.

II. THE DEPARTMENT'S ANALYSIS

Xcel seeks approval to provide gas service to the cities of Ulen and Hitterdal, along with surrounding areas, under the terms of the Company's ES rider. The Company requests service extension under the ES rider because the project is uneconomic and because a large part of the cost of extending service to these communities arises from the cost of assuming a contract, rather than from construction costs alone.

The Company also requests permission to modify its existing tariff to exclude the cost of service line extension allowances from the total cost of the project. This request is discussed below.

Xcel also requests approval to clarify the list of communities that will be served under the previously approved Barnesville and Holdingford ES riders. This request is evaluated below.

A. *PETITION TO IMPLEMENT ES RIDER IN ULEN AND HITTERDAL*

The practice and procedure for evaluating miscellaneous tariff and price list filings, including ES requests, are governed by Minnesota Rules 7859.1300. The Department has reviewed the filing and concludes that the Company has provided the information required by Minnesota Rules 7829.1300.

Minnesota Statute § 216B.16, Subd. 1 requires the Company to provide a 60-day notice to the Commission of any proposed tariff change. Minnesota Rules 7829.0100 requires the Company to make a miscellaneous rate change filing for any proposed tariff change where no determination of Xcel's general revenue requirement is necessary, including any request for establishing new Extension Surcharge Riders. The methodology for calculating an ES Rider is outlined in Section 5 of the Company's Minnesota Gas Rate Book. The relevant tariff sheets were included with the Petition as Attachment D.

⁴ Docket No. PL6580/M-14-578

Under its current tariff, Xcel may request permission to initiate an ES Rider for any term, up to period of up to 30 years, in areas that have not previously been served by the Company. For the Petition, the Company has requested a 15-year term. If costs are fully recovered before 15 years has passed, the Company will end the surcharge early. Xcel cannot collect remaining costs, if they exist, at the end of 15 years; all risk of under recovery is borne by the Company's shareholders. The tariff states that the extension surcharge revenue will first be applied as revenue up to the level of the third-party demand entitlement contract used to extend the pipeline to serve the new area. Revenue in excess of demand entitlement expense will be treated as contribution in aid of construction (CIAC).

The ES Rider described in Xcel's tariff depends on a calculation of the present value of the project's revenue deficiency (or excess) over the life of the project. If this value is at or near \$0, then the model indicates that the project is self-supporting and that the customer surcharge is at the proper amount. Several assumptions and calculations are used to calculate the net present value of the revenue deficiency, some of which are discussed below.

The Company has proposed implementing the ES Rider in the cities, and surrounding communities, of Ulen and Hitterdal. Xcel's Petition includes attachments detailing how the ES model is set up, and a map of the new area that would be served.

In order to serve the communities of Ulen and Hitterdal, and surrounding areas, Xcel will assume an existing agreement between West Central Ag Services (WCAS) and Greater Minnesota Transmission (GMT), which has been approved by the Commission.⁵ Xcel's Petition requests Commission approval of the Assignment and Assumption Agreement, as required by Minn. Stat. 216B.045, Subd. 4, which is discussed in greater detail below. The Company proposed to recover the costs associated with this contract through the ES Rider charge assessed to customers in the communities served, with resulting revenues and costs tracked in a separate Ulen-Hitterdal ES account.

The ES proposed by Xcel results in the following monthly surcharge amounts for each customer class:

Residential	Sm C & I	Lg C & I	Lg Dmd	Lg Firm Transp	Project PV
\$23.99	\$34.99	\$395.00	\$1,150.00	\$1,150.00	(6,132)

The Department has reviewed the Ulen-Hitterdal model spreadsheet as provided by Xcel, specifically analyzing the model's compliance with the ES Rider model described in its Natural Gas Tariff Book.⁶ This analysis found that the ES model submitted in the Petition

⁵ Docket No. PL-6580/M-14-578, Order dated August 22, 2014

⁶ Minnesota Gas Rate Book – MPUC No. 2, Section 5, Sheet Nos. 47-50

complies with the model that was approved by the Commission for inclusion in the tariff book.

The Department also analyzed the assumptions that were used as inputs in the ES model. Some of the assumptions the Department looked at include projected saturation rates, depreciation treatment, contingency allowances, and capital structure. Included in this analysis was a comparison of the assumptions in the Petition with assumptions used in the Barnesville-Holdingford model.⁷ The Department's analysis found no issues with the assumptions the Company used in the model and observed that the assumptions are generally in line with those used in the Barnesville-Holdingford model. The Department notes that the Company did assume a 15% contingency in this model, as compared to 10% in the previous model. However, the Department does not believe this assumption is unreasonable, especially considering that the Company is required to end the surcharge early if costs are fully recovered before the end of the 15-year proposed term.

The Department recommends that the Commission approve the ES rider as proposed by Xcel in the Petition.

B. REQUEST TO MODIFY THE ES RIDER TO EXCLUDE SERVICE LINE EXTENSION COSTS

The Company has requested to modify the ES Rider to exclude the cost of service line extensions (up to 75 feet) from the ES rider calculations. Xcel argued that this would be equitable for all customers, enabling some sharing of the ES/NAS construction costs to go along with the benefits all customers receive from the addition of new customers to the system.

The Department supports this proposed modification. In the Company's tariff book, it is stated Xcel policy to furnish and install residential service extensions up to 75 feet long "at its own expense."⁸ Also, the Department agrees with the Company's argument that, since all customers benefit from the addition of new customers, it is reasonable to allow existing customers to pay for service line extensions up to 75 feet.

C. REQUEST FOR APPROVAL OF THE ASSIGNMENT AND ASSUMPTION AGREEMENT

I. BACKGROUND

Xcel has included in its Petition a request to assume an existing agreement between WCAS and GMT. This Agreement provides for construction of a pipeline from the Barnesville town border station past Hitterdal to Ulen and for capacity on the line. The original Agreement between WCAS and GMT was approved by the Commission on August 22, 2014 in Docket No. PL6580/M-14-578 (14-578 Docket).

⁷ Docket Nos. G002/M-14-583 and G002/M-15-195

⁸ Minnesota Gas Rate Book – MPUC No. 2, Section 6, Sheet No. 18.1

II. ANALYSIS—REQUIREMENTS OF MINNESOTA STATUTES AND RULES

The Department provided a thorough analysis of the compliance of the original WCAS-GMT Agreement with Minnesota statutes and rules in its Comments filed in the original docket.⁹ The Department's analysis regarding the Agreement's compliance with Minnesota statutes and rules is still valid, even with Xcel assuming the rights and responsibilities originally assigned to WCAS under the Agreement. The Department concludes that the Agreement, amended to replace WCAS with Xcel, has met all applicable requirements under Minnesota statutes and rules.

III. ANALYSIS—COST RECOVERY

As with the requirements of Minnesota statutes and rules, the Department has already performed an analysis of the cost recovery GMT is entitled to under the Agreement. The majority of this analysis, specifically the analysis pertaining to financial assumptions pertaining to rate of return (ROR) and demand and volumetric charges, still stands even with Xcel's assumption of WCAS's portion of the Agreement.

In the 14-578 Docket, the Department did not analyze the cost recovery design from the perspective of the purchaser, as the previous purchaser, WCAS, was not a rate regulated utility. Accordingly, the Department has reviewed the demand and volumetric charges that Xcel will be assuming under the Agreement and then passing to ES customers through the ES Rider. These charges¹⁰ are consistent¹¹ with charges the Commission has approved in another recent transportation service agreement between GMT and Xcel.¹² The Department concludes that these charges are reasonable.

The Department notes that, if Xcel Energy is unable to generate a sufficient level of revenue to recover the costs associated with obligations contained in the Agreement, Xcel's ratepayers are protected. The language regarding the allocation of the risks associated with stranded costs in the New Area Surcharge and Extension Surcharge Riders in Xcel Energy's Minnesota Gas Rate Book is very concise – "The Company assumes the risk for under-recovery of expansion costs, if any, which may remain at the project's expiration date."¹³

⁹ See Trade Secret DOC DER July 21, 2014 Comments in Docket No. PL-6580/M-14-578

¹⁰ See Trade Secret Exhibit A to the Initial Filing, Docket No. PL-6580/M-14-578

¹¹ The Demand charge is different dollar for dollar, but the difference can be explained by adjusting for the differing lengths (10.5 miles as compared to 36 miles) of the pipelines that GMT is contracted to build.

¹² Docket No. PL6580, G002/M-14-386

¹³ Xcel Energy Natural Gas tariff, Section 5, 4th Revised Sheet No. 47

IV. CONCLUSION

After analyzing Xcel's proposal to assume the existing Agreement between WCAS and GMT, the Department supports the request and recommends approval.

A. CLARIFICATION OF COMMUNITIES SERVED UNDER PREVIOUSLY APPROVED ES

In the Petition, the Company indicated that it inadvertently omitted reference to four townships that contain customers that are included in the Barnesville and Holdingford project areas. These customers live just outside of the jurisdictions that were included in the Commission's Order¹⁴ approving that project. Xcel noted the following:

- Customers in Elmdale township are served under the Holdingford ES; and
- Customers in Spring Prairie, Barnesville, and Cromwell townships are served under the Barnesville ES.

The Department has verified with the Company¹⁵ that the customers living in the townships listed above were counted in the customer projections used to calculate the Barnesville and Holdingford NAS (now ES) surcharge amounts in the original docket.¹⁶ It is only the exact location of these already-counted customers that the Company wishes to clarify. The Department agrees that the proposed clarification is needed and appropriate.

B. ANNUAL REPORTING

In the Petition, Xcel proposed to submit an annual report for the Ulen/Hitterdal ES project each March 1. This is the reporting requirement that the Commission set for the current ES and NAS projects, as ordered in the Commission's October 31, 2014 Order in Docket No. G-002/M-14-583. The Department supports this proposal.

V. THE DEPARTMENT'S RECOMMENDATIONS

The Department has reviewed Xcel Energy's Petition for approval of an Extension Surcharge in the cities of Ulen and Hitterdal, along with surrounding areas. Xcel's proposal appears to be reasonable and to comply with Commission Rules and the Company's tariff.

The Department has also reviewed the other requests made by the Company in the Petition, which include:

¹⁴ Docket No. G002/M-14-583, ORDER dated October 31, 2014

¹⁵ See Attachment 1

¹⁶ Docket No. G002/M-14-583

- A request to approve the Ulen-Hitterdal ES Rider;
- A request to modify the ES rider to exclude service line extension costs;
- A request for approval of the Assignment and Assumption Agreement;
- Clarification of communities served under the previously approved ES Riders; and
- A request to set annual reporting requirements.

The Department has analyzed each of these requests in these Comments, and has concluded that each request is reasonable. Therefore, the Department recommends that the Commission approve the Petition, and require Xcel to provide a compliance filing within 10 days of the Commission's Order in this matter.

/ja

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-16-40

Dated this 11th day of February 2016

/s/Sharon Ferguson

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