

## Staff Briefing Papers

Meeting Date April 22, 2021 Agenda Item 2\*

Company Northern States Power Company d/b/a Xcel Energy

Docket No. **G-002/M-20-633**

**In the Matter of the Petition by Northern States Power Company for Approval of Changes in Contract Demand Entitlements**

Issues Should the Commission accept Northern States Power Company's (Xcel Energy's) proposed level of demand entitlements and allow Xcel Energy to recover the associated demand costs through the monthly Purchased Gas Adjustment (PGA) effective November 1, 2020.

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 **Relevant Documents**

**Date**

Xcel Energy – Petition (TS)	Jul. 31, 2020
Xcel Energy – Supplemental Update (TS)	Oct. 29, 2020
Department of Commerce – Comments	Oct. 29, 2020
Xcel Energy – Reply Comments	Nov. 9, 2020
Department of Commerce – Supplemental Comments	Feb. 25, 2021
Xcel Energy – Reply to Supplemental Comments	Mar. 11, 2021

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The attached materials are work papers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

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## I. Statement of the Issues

Should the Commission accept Northern States Power Company's (Xcel Energy's) proposed level of demand entitlements and allow Xcel Energy to recover the associated demand costs through the monthly Purchased Gas Adjustment (PGA) effective November 1, 2020.

## II. Introduction

Xcel Energy annually updates its natural gas transportation, storage entitlements, and supply contracts to ensure the Company has access to sufficient capacity to cover the anticipated peak demand of its natural gas customers.

## III. Background

On July 31, 2020, Xcel Energy (or NSP, or the Company) submitted a Petition for approval of a Change in Contract Demand Entitlements. The Petition seeks approval from the Commission to allow Xcel Energy to implement, through the PGA, changes in its interstate pipeline transportation, storage entitlements, and other demand-related contracts for the upcoming 2020-2021 year. Xcel Energy requested approval to implement its 2020-2021 Heating Season Supply Plan effective November 1, 2020.

On October 29, 2020, the Minnesota Department of Commerce, Division of Energy Resources (Department) submitted its comments. The Department reviewed Xcel Energy's petition to evaluate the reasonableness of the Company's design-day requirements, proposed overall demand entitlements, reserve margins, jurisdictional allocation, supplier reservation fees, and PGA cost recovery proposals. The Department requested additional information and stated that it would file its final recommendations after Xcel Energy's November 2020 supplement or update to its demand entitlement proposal.

Also on October 29, 2020, Xcel Energy submitted its Supplemental Update in which it included three adjustments to its initial petition: a change in Design Day, an increase in transportation entitlements, and a cost change from those identified in the Petition.

On November 9, 2020, Xcel Energy submitted Reply Comments. Xcel Energy provided the additional information requested by the Department on the ANR Pipeline and Great Lakes Gas Transmission Alberta Xpress project. Xcel Energy also provided an update on the Northern Natural Gas interim rate refund.

On February 25, 2021, the Department submitted Supplemental Comments in which it recommended that the Commission accept Xcel Energy's proposed level of demand entitlements and allow Xcel to recover the associated demand costs through the monthly Purchased Gas Adjustment (PGA) effective November 1, 2020.

On March 11, 2021, Xcel Energy submitted additional Reply Comments in which it committed to responding to the Commission's inquiry into the February 2021 severe weather event, along with the associated Department information requests, in Docket No. G-999/CI-21-135.

## IV. Minnesota Rules

Minnesota Rule, part 7825.2910, subpart 2<sup>1</sup> requires gas utilities to make a filing whenever there is a change to demand-related entitlement services provided by a supplier or transporter of natural gas.

## V. Change in Design Day

### A. Xcel Energy - Petition

Xcel Energy updates its natural gas transportation, storage entitlements, and supply contracts on an annual basis to ensure the Company has access to sufficient capacity to cover the anticipated peak demand of its natural gas customers. To determine the amount required, Xcel Energy considers its forecast of customer needs under Design Day (DD) conditions.

Xcel Energy continues to calculate DD using both Actual Peak Use per Customer Design Day (UPC DD) and Average Monthly Design Day (Avg. Monthly DD) methods.

Xcel Energy's firm customer count in Minnesota increased by 3,968 customers, from 465,382 forecasted for the 2019-2020 heating season to 469,350 forecasted for the 2020-2021 heating season. According to Xcel Energy's initial Petition, this projection contributed to an increase in DD requirements in Minnesota of 5,496 Dekatherms (Dth), from 743,696 to 749,192, using the UPC DD method. The Company uses the actual peak day use per firm customer of 1.57393 Dth as experienced January 29, 2004 in the UPC DD calculation. The Small and Large Demand Billed contracted customer Billing Demand of 25,775 Dth is added to the DD estimate for the Residential, Small and Large Commercial classes to determine the total Minnesota State DD Projection of 749,192 Dth.

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<sup>1</sup> Filing upon a change in demand, is included in the Automatic Adjustment of Charges rule parts 7825.2390 through 7825.2920 and requires gas utilities to file to increase or decrease demand, to redistribute demand percentages among classes, or to exchange one form of demand for another.

Minn. Rules, part 7825.2910, subp. 2. Filings by Gas Utilities. Filing upon change in demand. Gas utilities shall file for a change in demand to increase or decrease demand, to redistribute demand percentages among classes, or to exchange one form of demand for another. A filing must contain:

- A. a description of the factors contributing to the need for changing demand;
- B. the utility's design-day demand by customer class and the change in design-day demand, if any, necessitating the demand revision;
- C. a summary of the levels of winter versus summer usage for all customer classes; and
- D. a description of design-day gas supply from all sources under the new level, allocation, or form of demand.

Minn. Rules, part 7825.2400, subp. 13a. Definitions. Demand. "Demand" means the maximum daily volumes of gas that the utility has contracted with a supplier or transporter to receive.

Xcel Energy uses the Avg. Monthly DD to develop the allocations by state and by service regions. The Avg. Monthly DD calculation is based on linear regression using 60 data points, from January 2015-December 2019.

## **B. Department - Comments**

The Department reviewed Xcel Energy's forecast methodology and believes it is acceptable. Further, the Department agrees with Xcel Energy that the Company should continue to use the two methods to develop its design-day estimate, updating the UPC DD method when appropriate.

## **C. Xcel Energy - Supplemental Update**

Xcel Energy included three adjustments in its Supplemental Update, a change in Design Day, an increase in transportation entitlements, and a cost change from those identified in its Petition. These adjustments increase costs in Minnesota by approximately \$69,000, or 0.1% from Xcel Energy's Petition request. Xcel Energy's total annual system cost, effective November 1, 2020, is \$66,665,442, or \$58,178,932 for Minnesota customers.<sup>2</sup>

In its supplement, Xcel Energy indicated that it had made changes to the level of design day requirements to serve customers in its demand billed rate class. The update increases the projected number of demand customers from 130 in Xcel Energy's Petition to 136, and the required demand quantity for the demand billed rate class from 25,775 Dth to 27,566 Dth. As shown in Xcel Energy's Revised Attachment 1, Schedule 1, p. 5, this results in an overall increase to the Minnesota DD requirements of 7,278 Dth, instead of the previously projected increase of 5,496 Dth, for a total projected Minnesota DD requirement of 750,974 Dth. This change results in an overall reserve margin of 5.5 percent and adjusts the Minnesota allocation factor to 87.27 percent.<sup>3</sup>

## **D. Department Response Comments**

The Department believes Xcel Energy's proposed changes described above appear reasonable.

# **VI. Demand Entitlement Levels**

## **A. Xcel Energy's Petition**

Reflected in Xcel Energy's Petition are changes in its resources used to meet its DD customer requirements, including entitlements on its pipeline and storage supplier systems: Northern Natural Gas Company, Viking Gas Transmission Company, Great Lakes Gas Transmission Company, ANR Pipeline Company, WBI Energy Transmission, and ANR Storage Company.

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<sup>2</sup> Xcel Energy Supplemental Update, p. 1.

<sup>3</sup> *Id.*, p. 2, and Revised Attachment 1, Schedule 1, Page 5.

### **1. Change in Viking Gas Transmission (Viking) entitlement (effective November 1, 2020)**

Xcel Energy renewed one Viking firm capacity entitlement this year. The previous capacity of 1,500 Dth/day expired October 31, 2020 and has been renewed at the same terms for a one-year term. Xcel Energy also plans to acquire for the 2020-2021 season a total of 13,671<sup>4</sup> Dth/day of delivered supply from a producer/marketer on Viking capacity for December through February, to meet seasonal peaking needs. Xcel Energy has already secured 5,000 Dth/day of this requirement and will look to complete the remaining acquisition before the winter season.

### **2. Change in Great Lakes Gas Transmission (Great Lakes) entitlement (effective April 1, 2021)**

NSP extended two Great Lakes firm transportation agreements for additional two-year terms effective April 1, 2021 at the same terms as the original agreements. These agreements provide access to gas stored in ANR Storage (ANRS) facilities in Michigan, to allow [Xcel] to meet its Carlton obligations on Northern, and provide regional diversity in [its] winter gas supplies. This provides additional reliability in meeting [its] design day supply needs.<sup>5</sup>

### **3. Change in ANR Storage Co. (ANRS) entitlement (effective April 1, 2021)**

NSP has extended [its] service agreement with ANRS for an additional two-year term, effective April 1, 2021. In September 2019, ANRS was granted Market Based Rate Authority by FERC, beginning January 1, 2020. As a result, ANRS no longer has a tariff rate for service. This extension is at a slightly higher market rate. However, NSP retains the previously approved maximum tariff rates through March 2021, and the new rates continue to be the lowest cost option for NSP's service requirements in the region. The contracted rate is approximately half the cost of the nearest competitor. This agreement allows for the storage of gas supplies in Michigan and provides cost effective method to meet our obligation to supply gas at the Carlton interconnect with Northern. In addition, the capacity provides regional supply diversity, and increased reliability of gas supplies during extreme cold events.<sup>6</sup>

### **4. Change in Northern Natural Gas (Northern) entitlement (effective November 1, 2021)**

As part of Northern's Northern Lights 2021 expansion project, NSP has contracted to acquire an additional 9,459 Dth/day to be effective November 1, 2021 to meet growing demand. Of this quantity, 3,600 Dth/day on a year-round basis, is

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<sup>4</sup> Xcel Energy's Petition stated 13,761, but the schedules listed 13,671.

<sup>5</sup> Xcel Energy Petition, Attachment 1, pp. 5-6.

<sup>6</sup> Id., p. 6.

significantly discounted as part of NSP's existing discount agreement with Northern, and provides for growth in the St. Cloud area. The remaining 5,859 Dth/day is at Northern's maximum tariff rate and will serve new growth areas on NSP's system and will provide NSP with capacity to meet future design day requirements. The discounted capacity will be provided through the remaining term of NSP's discount agreements. The tariff rate portion will be for a term of 10 years from November 1, 2021. Annual costs are expected to be \$1.14 million per year and will be included in next year's filing.<sup>7</sup>

## 5. Projected Decrease in Demand Related Costs

Xcel Energy projected a decrease in demand related costs of approximately \$5,287,928 (or -7%) for the 2020-2021 year. The change is predominantly the result of settlements in rate proceedings with both Northern Natural Gas and Viking Gas Transmission," which were pending approval by the Federal Energy Regulatory Commission at the time Xcel Energy's Petition was filed.

### B. Department - Comments

According to the Department, overall, the Company's system firm supply entitlements, which includes entitlements for Minnesota and North Dakota, rose, from 905,371 Dth/day to 908,042 Dth/day, or 0.3%.<sup>8</sup>

The Department stated:

The Company proposed no changes to be made to NNG, VGT, GLGT, and WBI Pipeline capacity and entitlements. The net change to the design-day capacity is a decrease of 1,202 Dth/day on a Minnesota jurisdictional basis.<sup>9</sup>

#### 1. Northern Natural Gas (Northern or NNG)

The majority of Xcel's firm pipeline transportation contracts are with NNG.

With respect to Northern's Northern Lights 2021 expansion project, to be effective November 1, 2021, the beginning of the 2021-2022 heating season, the Department stated:<sup>10</sup>

The additional entitlements ... are part of Northern's 'Northern Lights 2021' expansion that is currently underway in Federal Energy Regulatory Commission

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<sup>77</sup> Ibid.

<sup>8</sup> Department Comments, p. 6.

<sup>9</sup> Id., p. 2.

<sup>10</sup> Department Comments, p. 8.

(FERC) Docket No. CP20-503-000. In NNG’s July 31, 2020 filing in the FERC Docket, NNG stated the following:<sup>11</sup>

... Northern received requests in the Northern Lights 2021 Open Season from CenterPoint, Xcel and Midwest Natural Gas for 45,693 Dth/day for service commencing November 1, 2021, for incremental residential, commercial and industrial end users within Minnesota and Wisconsin. [Footnote omitted.]

... Northern has binding commitments for firm throughput service with three shippers for service commencing November 1, 2021. These commitments total an aggregated incremental peak winter entitlement of 45,693 Dth/day. ... The following table summarizes the individual shippers and their winter peak day firm entitlement. (See Table below).

Shipper	Winter Dth/day
CenterPoint Energy Resources Corporation	34,880
Northern States Power Company, a Minnesota Corporation	9,459
Midwest Natural Gas	1,354

Given that the above Northern changes do not impact the instant Petition, the Department expects that Xcel in its next demand entitlement petition will provide not only the detailed costs to Xcel of the ‘Northern Lights 2021’ project described above but also a detailed description of the incremental annual and/or winter peak-day capacity that Xcel has contracted with NNG.

Regarding the Northern rate case settlement, the Department stated:<sup>12</sup>

The Department has previously addressed the impact of the above Northern rate case in its October 3, 2019 Comments and April 15, 2020 Response Comments in last year’s demand entitlement filing in Docket No. G002/M-19-498. The above Northern changes impact the instant Petition, and are a large part of the decrease in Minnesota jurisdiction demand related costs of approximately \$5,287,928.

## 2. Viking Gas Transmission

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<sup>11</sup> Id., at p. 8, FN 12, “See NNG’s July 31, 2020 Petition in Docket No. CP20-503-000 at FERC – pages 7 and 25.”

<sup>12</sup> Department Comments, p. 9.



The Department noted the two adjustments Xcel Energy made to demand entitlements needed to serve peak demand on its VGT pipeline. Xcel Energy (1) renewed one Viking firm capacity entitlement for 1,500 Dth/day at the same terms for an additional one-year term, and (2) plans to acquire 13,761 Dth/day of delivered supply from a producer/marketer of Viking capacity for December through February, to meet seasonal peaking needs. NSP has already secured 5,000 Dth/day of this requirement and will look to complete the remaining acquisition before the winter season.

Regarding the settlement of Viking's rate case, approved by the Federal Energy Regulatory Commission on July 1, 2020, the Department stated:<sup>13</sup>

The Department has previously addressed the impact of the above Viking rate case in its October 3, 2019 Comments and April 15, 2020 Response Comments in last year's demand entitlement filing in Docket No. G002/M-19-498. The above Viking changes impact the instant Petition, and contribute to the decrease in Minnesota jurisdiction demand related costs of approximately \$5,287,928.

### **3. Great Lakes Gas Transmission**

Xcel Energy extended two Great Lakes firm transportation agreements for additional two-year terms effective April 1, 2021 at the same terms as the original agreements, resulting in no change to contract quantity.

The Department also requested that Xcel Energy in its Reply Comments and/or in its supplement in November briefly explain Great Lakes' (and ANR's) Alberta Express Project and if this project will impact Xcel and its firm customers.

### **4. ANR Pipeline**

There was a small reduction to capacity on the ANR Pipeline pursuant to the ANR Pipeline tariff.

### **5. Department Conclusion**

The Department analyzed the above changes in design-day entitlement resources and stated each change appears reasonable at this time to serve firm customers on a peak day. However, the Department will provide its final conclusions and recommendations once Xcel Energy has filed a supplement or update to its Petition in November 2020 that shows the final pipeline and supply entitlements for the 2020-2021 heating season.

## **C. Xcel Energy - Supplemental Update**

Since filing the Petition, Xcel Energy acquired two additional delivered supply agreements on Viking totaling 8,700 Dth/day in lieu of seasonal Viking Capacity. This is 29 Dth/day more than

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<sup>13</sup> Department Comments, p. 10.

the additional 8,671 Dth/day of additional delivered supply service reflected in the Petition due to contracting in round numbers.

Xcel Energy also noted that in its Petition it had used the wrong rate for one previously acquired delivered supply agreement to meet design day requirements. Xcel Energy corrected this rate in its Supplemental Update. The change increases the overall costs by \$27,000.

Xcel Energy also provided an update on the Northern Natural Gas Rate Case Settlement stating that, “On September 29, 2020, the FERC approved the Settlement, making the rates included final.”

#### **D. Xcel Energy - Reply Comments**

In response to the Department’s request that Xcel Energy briefly explain if the above-mentioned GLGT and ANR FERC Alberta Xpress Project will impact Xcel and its firm customers, Xcel Energy provided the following information:<sup>14</sup>

The project is designed to transport gas from Western Canada to the United States Gulf Coast. The project proposes ANR lease currently unsubscribed capacity from Great Lakes in order to transport gas from the Canadian border to ANR’s facilities in Louisiana. The capacity lease will function similarly to ANR holding a firm transportation agreement on Great Lakes, which ANR proposed to do if FERC does not approve the capacity lease. ANR also proposed to build new facilities required to increase North to South transportation on its Southeastern Mainline to deliver to the Gulf Coast. Overall the project proposes to utilize mostly existing facilities to increase the access of Western Canadian gas to the Gulf Coast.

Xcel Energy intervened in both dockets. Xcel Energy holds firm transportation capacity on both ANR and Great Lakes and wants to ensure that existing service is not adversely affected by the Alberta Express Project. We reviewed the pertinent information related to the project and the capacity lease described in these dockets. The capacity lease does not appear to affect any services, while the facilities to be constructed are located well downstream of the facilities used to serve Xcel Energy. Xcel Energy believes that the proposal will have no effect on our transportation agreements or on service to our customers.

#### **E. Department Supplemental Comments**

The Department believes that Xcel’ Energy’s proposed supplier entitlement changes appear reasonable.

With respect Xcel Energy’s reply regarding the GLGT and ANR FERC dockets for the Alberta Xpress Project, the Department stated that it “appreciates the Company’s confirmation that the

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<sup>14</sup> Xcel Energy Reply Comments, pp. 1-2.

above referenced FERC Dockets will not impact the Company's transportation agreements with the interstate pipelines and its firm customers."

## **VII. Change in Jurisdictional Allocations**

### **A. Xcel Energy Petition**

The changes in the design-day (DD) forecast slightly alter the allocation of entitlements between the Minnesota and North Dakota retail natural gas jurisdictions. The DD allocation factor decreased slightly for the Minnesota State jurisdiction from 87.57 percent to 87.18 percent.

### **B. Department Comments**

The Department stated:<sup>15</sup>

The 2020-2021 heating season jurisdictional allocation factor, which is used to allocate new peak capacity to Minnesota and North Dakota, remained within 0.50 percentage points of the projection for the prior heating season. The allocation factor is calculated by dividing the design-day forecasted demand for Minnesota (748,632 Dth/day) by the same demand for the Company's system (858,751 Dth/day). The Avg. Monthly DD results are used to update the allocation factor, which decreased from 87.57% to 87.18%.<sup>16</sup>

Small annual changes in the allocation factor are almost inevitable. A locational change of a handful of customers in one state or the other can change the total numbers upon which the allocation factor is based and therefore change the allocation between the states. Again, such changes are typically not significant. The Department concludes that Xcel's proposed jurisdictional allocation change is reasonable.

### **C. Xcel Energy Supplemental Update**

As indicated above, the update changes to the Design Day, changed the Minnesota jurisdiction allocation factor from the 87.18% amount in the Petition to 87.27%.

## **VIII. Change in Supply Reservation Fees**

### **A. Xcel Energy Petition**

Xcel Energy's Petition reflects updated costs for firm gas supply reservation fees.

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<sup>15</sup> Department Comments, pp. 13-14.

<sup>16</sup> Department Comments, p. 13, FN 22 "Petition Attachment 1, pages 6 and 7."

The total change in supplier reservation charges is an increase of \$88,166. Xcel Energy's Attachment 1, Schedule 2, Page 1 lists the changes in Supply Entitlements. This includes the projected costs of delivered supply to meet design day requirements in lieu of purchasing Viking seasonal capacity as discussed above.<sup>17</sup>

## **B. Department Comments**

Xcel stated that its Supplier Reservation fees have changed. The resulting net change is an increase of \$88,166 annually based on the proposed addition of 2,671 Dth/day year-over-year. Each of the supplier contracts is listed in the Trade Secret version of the Company's Petition. The Department did not comment on each individual contract but reviewed the filings and can confirm that Xcel's proposal appears reasonable.<sup>18</sup>

## **IX. Heating Season Plan for Use of Financial Instruments**

### **A. Xcel Energy - Petition**

Attachment 3 of Xcel Energy's Petition provides information in response to the reporting requirements established in Docket No. G-002/M-12-519 (Order dated September 23, 2013) regarding Xcel's use of financial instruments to limit commodity price volatility, and Docket Nos. G-002/M-16-88 and G-002/M-19-703 (Orders dated April 22, 2016 and February 12, 2020) regarding benefits to customers. The attachment discusses the anticipated benefits of the contracts to ratepayers and shows a summary of hedge transactions for the 2020-2021 heating season.

### **B. Xcel Energy - Supplemental Update**

Xcel Energy updated the hedging transactions presented in revised Attachment 3, Schedule 1. The Company completed hedging for the 2020-2021 heating season by executing a total of six call options. "Total hedging costs for the 2020-2021 heating season are \$5,252,535".<sup>19</sup>

## **X. Reserve Margin**

### **A. Xcel Energy Petition**

Xcel Energy proposes to slightly decrease its capacity reserve margin from 6.6 percent in November 2019 to 5.7 percent in November 2020, as noted in the Company's Petition in Attachment 2, Schedule 1, Page 3. Xcel Energy believes

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<sup>17</sup> Xcel Energy Petition, Attachment 1, p. 8.

<sup>18</sup> Department Comments, p. 14, and FN 23, "See Xcel's Petition at Attachment 1, page 8 of 9 and Attachment 1, Schedule 2, page 1."

<sup>19</sup> Xcel Energy Supplemental Update, p. 3.

this reserve margin is appropriate, given the need to balance the uncertainty of: (a) experiencing DD conditions; (b) actual consumer demand during DD conditions; and (c) the need to protect against the potential loss of a source of firm natural gas supply.

We add firm resources to meet projected firm customer demand and plan to maintain a reserve margin as close as practicable to either the capability of the largest pump at Wescott used to vaporize LNG or to the capability of either of the St. Paul metro propane-air peak shaving plants. Capacity decisions are based on projected demand, and the most economic method of adding capacity often involves adding increments that do not precisely match expected changes in demand. The reserve margin ensures reliability for our firm natural gas customers in Minnesota. The proposed 2020-2021 heating season DD reserve margin for Minnesota State is 42,439 Dth/day or 5.7 percent.<sup>20</sup>

## B. Department Comments

According to the Department:<sup>21</sup>

Xcel's proposed design-day reserve margin in Minnesota is 5.66% for 2020-2021, which is a slight decrease from the 6.61% figure in 2019-2020. As the Company stated, the reserve margin serves to protect against the loss of a firm gas-supply source and the risk of actual consumer demand exceeding the design day. Xcel stated that its proposed reserve margin of 42,439 Dth/day, as shown in further detail in Department Attachment 1, is appropriate to meet its design-day needs.<sup>22</sup>

...

Xcel's proposed reserve margin is within the 5-7 percent range that serves as a rule of thumb in deciding whether a given margin is reasonable. The Department, therefore, concludes that the 2020- 2021 reserve margin is not unreasonable.

## C. Xcel Energy - Supplemental Update

Due to the update changes in design-day and capacity, Xcel Energy is now estimating a reserve margin of 41,500 Dths for the Minnesota jurisdiction (heating season capacity of 792,474 Dth less design-day of 750,974 Dths), or approximately 5.5%.<sup>23</sup>

## D. Department - Supplemental Comments

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<sup>20</sup> Xcel Energy Petition, Attachment 1, Part C, pp. 8-9.

<sup>21</sup> Department Comments, pp. 12-13.

<sup>22</sup> Department Comments, p. 13, FN 20, "See Xcel's Petition at Attachment 1, page 8 of 9 and Attachment 1 Schedule 1 page 5."

<sup>23</sup> Xcel Energy Supplemental Filing, Revised Attachment 2, Schedule 1, p. 3.

The Department stated:<sup>24</sup>

As a result of all of Xcel's proposed entitlement changes, the net change to the Company's reserve margin is a decrease of 385 Dth/day on a Minnesota-jurisdictional basis, resulting in a reserve margin of 5.52%.<sup>25</sup> This reflects a decrease in the reserve margin compared to the 2019-2020 heating season's reserve margin of 6.61%. As discussed in the Department's Comments, the 2020-2021 reserve margin is not unreasonable.

## E. PUC Staff Comments

Table 1 below compares Xcel Energy's proposed 5.5% reserve margin (as calculated by Xcel Energy) to the other Minnesota LDCs. However, it should be remembered that the reserve margin is based on each LDC's forecast of its design-day, and to the extent the LDCs are using different forecasting methodology for estimating extreme cold weather and UPC on a design day, the reserve margins are not exactly comparable.

**Table 1: 2020-2021 Change in Demand Entitlement filings**

Company	Docket No.	Reserve Margin	Status
Xcel Energy	M-20-633	5.5% <sup>26</sup>	Commission meeting 4/22/2021
CenterPoint Energy	M-20-565 & M-21-102	3.24% <sup>27</sup> & 4.8% <sup>28</sup>	Pending
MERC	M-20-636 & M-20-637	2.70% <sup>29</sup> % & 11.95% <sup>30</sup>	Order - 1/25/2021
Great Plains Natural Gas	M-20-562	9.5% <sup>31</sup>	Commission meeting 4/22/2021
Greater Minnesota Gas	M-20-391	3.7% <sup>32</sup>	Order – 3/12/2021

<sup>24</sup> Department Response Comments, p. 7.

<sup>25</sup> Id., p. 7, FN 8, "The 5.52% reserve margin is a slight decrease from the 5.66% reserve margin reflected in Xcel's initial Petition. See Department Supplemental Comments Attachment 1."

<sup>26</sup> Department of Commerce (DOC), Supplemental Comments, p. 7. (February 25, 2021) The 5.52% reserve margin is a slight decrease from the 5.66% reserve margin reflected in Xcel's initial Petition.

<sup>27</sup> DOC Comments, Docket No. G-008/M-20-565; 2020-2021 Reserve Margin, Table 2, p. 11. (January 8, 2021) Assumes availability of peak-shaving facilities (physical reserves).

<sup>28</sup> CPE, Initial Filing, Estimated Reserve Margin, Docket No. G-008/M-21-102; p. 6 of 9. (February 1, 2021) Assumes availability of peak-shaving facilities (physical reserves).

<sup>29</sup> PUC Order (January 25, 2021) and DOC Comments (November 24, 2020), Margin, Docket No. G-011/M-20-636, DOC Comments, p. 7, Table 5. Total Consolidated Area Reserve Margin.

<sup>30</sup> PUC Order (January 25, 2021) and DOC Comments (November 24, 2020), Docket No. G-011/M-20-637; p. 8, Table 6. NNG Area Reserve Margin,

<sup>31</sup> DOC Supplemental Comments, Docket No. G-004/M-20-562; p. 5. (March 4, 2021); Great Plains Informational Update, Docket No. G-004/M-20-562; p. 2, and Exhibit A. (October 30, 2020). This is an increase from the 6.85% originally proposed in Great Plains' Petition.

<sup>32</sup> PUC Order (March 12, 2021) and DOC Comments, Docket No. G-022/M-20-391; p. 8, Table 4. (October 28, 2020). Please note that the Commission's Order requires Greater Minnesota Gas to maintain a

## XI. Xcel Energy's PGA Cost Recovery Proposal

### A. Department - Supplemental Comments

The Department stated:<sup>33</sup>

In its Supplemental Filing, Xcel proposed to reflect the costs associated with its proposed demand entitlements in the purchased gas adjustment (PGA) effective November 1, 2020. The demand entitlements in Xcel's Trade Secret Revised Attachment 2, Schedule 1, Page 1 of 3, represent the demand entitlements for which the Company's firm customers will pay. The Company's Revised Attachment 2, Schedule 2 compares the October 2020 PGA costs to the November 2020 PGA costs for several customer classes. The resulting cost changes, related strictly to changes in demand costs, have the following annual rate effects:

- Annual demand costs increase by \$0.0248/Dth, or approximately \$2.16 annually, for the average Residential customer consuming 87 Dth annually;
- Annual demand costs increase by \$0.0266/Dth, or approximately \$7.56 annually, for the average Small Commercial customer consuming 284 Dth annually;
- Annual demand costs increase by \$0.0238/Dth, or approximately \$34.81 annually, for the average Large Commercial customer consuming 1,463 Dth annually; and
- There is no change in annual demand costs for the average Small Interruptible, Medium Interruptible, and Large Interruptible customers. These customer classes are not allocated demand costs under the current cost allocation plan.

### B. PUC Staff Comment

Xcel Energy's October (docket 20-754) and November (docket 20-802) PGAs are not directly comparable. The October PGA demand rate includes just the annualized cost, whereas the November PGA rate includes the winter addition. Xcel Energy is unique in the way it calculates the demand rates in its PGAs on a seasonal basis.

## XII. NNG Refund

### A. Xcel Energy - Reply Comments

Xcel Energy noted that it received a refund on October 23, 2020,

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minimum reserve margin of 5% on a going-forward basis for the heating seasons, or fully explain any decision to use a reserve margin of less than 5%.

<sup>33</sup> Department Supplemental Comments, p. 4.

of approximately \$4.4 million from Northern for the difference between interim rates in effect January 1, 2020 and April 30, 2020 and the rates approved in the settlement between Northern, NSP, other customers of Northern, and FERC Staff in Docket No. RP19-1353. The Company plans to return this refund in January 2021, as a one time bill credit to natural gas customers taking firm gas sales service.<sup>34</sup>

## B. Department - Response Comments

The Department stated:

As a result of the above NNG case at FERC, the refund and bill credit adjustment through the PGA will be reflected in the Company's upcoming Annual Automatic Adjustment (AAA) Report filed in compliance with Minnesota Rules 7825.2390 through 7825.2920 in Docket No. G999/AA-21-114 (Docket 21-114). Thus, based on its review, the Department concludes that the Company's proposal appears to be reasonable.<sup>35</sup>

## C. PUC Staff Comment

Xcel Energy's Reply Comments did not say anything about the refund and bill credit being done through the PGA, nor did it request a variance Minn. R. 7825.2700, subp. 8. Since Xcel Energy did not request any variances, PUC staff assumes Xcel Energy has complied with refund timing requirements in Minn. R. 7825.2700, subp. 8, which states:

**Subp. 8. Refunds.** Refunds and interest on the refunds, that are received from the suppliers or transporters of purchased gas and attributable to the cost of gas previously sold, must be annually refunded by credits to bills, except that cumulative refund amounts equal to or greater than \$5 per customer must be refunded within 90 days from the date the refund is received from a supplier or transporter. Refunds must be allocated to customer classes in proportion to previously charged costs of purchased gas. Within classes, the refund amount per unit must be applied to bills based on individual 12-month usage. The utility shall add interest to the unrefunded balance at the prime interest rate.

The Commission may wish to require Xcel Energy to submit a compliance filing that explains and confirms how it handled the pipeline refund in January in accordance with the Commission supplier refund rules. PUC staff has included Decision Option 3 for this.

## XIII. February 2021 Cold Weather Event

### A. Department - Response Comments

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<sup>34</sup> Xcel Energy Reply Comments, p. 2.

<sup>35</sup> Department Response Comments, p. 5.



The Department noted that, “on February 18, 2021, the Commission issued its Notice of Commission Special Planning Meeting (*February 18, 2021 Notice*) to be held on February 23, 2021 in order to provide the Commission with information about the impacts of the February 2021 cold weather event and the increase in natural gas prices.” The Department further noted that, on the same date, “Commission Staff issued a Memorandum (*Memo*) identifying the docket’s gas companies’ gas costs are reviewed in and expanding on the list of questions included in the *February 18, 2021 Notice*.” The Department committed to following up on some and/or all questions raised in the *February 18, 2021 Notice* and *Memo* in the upcoming AAA report in Docket No. G-999/ AA-21-114 and/or in Docket No. G-999/CI-21-135, the Commission’s investigation into the natural gas utilities’ operational experiences and the natural gas price impacts during the recent February 2021 Cold Weather Event.

#### **XIV. Decision Options**

1. Approve Xcel Energy’s proposed level of demand entitlements as amended by its Supplemental Filing; and [Department, Xcel]
2. Allow Xcel Energy to recover associated demand costs through the monthly Purchased Gas Adjustment effective November 1, 2020. [Department, Xcel]
3. Require Xcel Energy to submit a compliance filing within 10 days of the Commission’s Order that explains and confirms how it handled the pipeline refund in January 2021 in accordance with the Commission supplier refund rules. [Staff additional decision option.]