

August 27, 2014

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

RE: **Response Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G002/M-14-583

Dear Dr. Haar:

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

Xcel Energy's Petition for Approval of New Area Surcharge (NAS) Riders for the Cities of Barnesville, Holdingford, Pillager, and Surrounding Areas.

After reviewing Xcel Energy's August 18, 2014 Reply Comments, the Department recommends that the Minnesota Public Utilities Commission (Commission) **approve the Petition, with modification**. The Department is available to answer any questions the Commission may have.

Sincerely,

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

LBO/lt
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET No. G002/M-14-583

I. BACKGROUND

On July 9, 2014, Northern States Power Company, doing business as Xcel Energy (Xcel or the Company) filed its request for New Area Surcharge (NAS) Riders for the cities of Barnesville, Holdingford, Pillager, and surrounding areas.

On August 8, 2014, the Minnesota Department of Commerce (Department) filed Comments recommending the following:

- Approval of Xcel's proposal of updating the company's cost of capital to reflect the cost of capital proposed in its current electric rate case;
- Approval of the Pillager New Area Surcharge;
- Approval of either:
 - Xcel's proposed New Area Surcharge (NAS) for Barnesville (with a \$1 per month decrease in the residential surcharge rate) and Holdingford or, preferably,
 - The Department's recommended alternative of avoiding use of NAS surcharges for these cities and areas and instead use a Purchased Gas Adjustment (PGA) surcharge for the higher demand costs.

On August 18, 2014, Xcel filed Reply Comments, agreeing with the following Department recommendations:

- Updating the cost of capital as initially proposed by Xcel;
- Approval of the Pillager NAS; and
- Decreasing the Barnesville NAS by \$1 per month.

Xcel disagreed with the Department's recommendation that the costs of extending service to Barnesville and Holdingford should be assessed to customers in those communities through the PGA. However, the Company acknowledged that their Tariff language is problematic for application of the NAS mechanism in this case. To remedy this, the Company recommended the following modification to their tariff language to allow for inclusion of contracted capacity entitlement costs incurred to bring service to new areas, such as those incurred to serve Barnesville and Holdingford:

Operating Expenses. Operating expenses includes provisions for transmission and distribution system operation and maintenance expenses, and provisions to cover customer accounting expenses such as meter reading, customer accounting and collection. Property taxes are also included as a component of operating expenses. ~~All—e~~Components of operating expense herein are driven by the amount of plant in service additions and other operating and maintenance expenses, including capacity entitlements if contracted only for purposes of extending service, needed to extend service (Column 3).

The Department offers the following response to Xcel's Reply Comments.

II. DEPARTMENT RESPONSE

A. NAS TARIFF LANGUAGE

The Department continues to have reservations regarding the use of the NAS in cases in which another entity constructs the transmission line that will serve the new area and enters into a transportation agreement with the Company. If this approach is used for other service extensions in the future, the Department feels it would be best if the approach is evaluated, and the tariff potentially amended, on a case-by-case basis. Therefore, the Department does not support Xcel's tariff modification as proposed but offers a slight modification that it can support. The Department recommends that Xcel's Tariff (Section 5, Sheet 49 of Xcel's Minnesota Gas Rate Book—MPUC No. 2) be amended as follows:

Operating Expenses. Operating expenses includes provisions for transmission and distribution system operation and maintenance expenses, and provisions to cover customer accounting expenses such as meter reading, customer accounting and collection. Property taxes are also included as a component of operating expenses. ~~All—e~~Components of operating expense herein are driven by the amount of plant in service additions needed to extend service, with exceptions for

the towns and surrounding areas of Barnesville and Holdingford, where capacity entitlements contracted only for the purpose of extending service may also be included (Column 3).

The Department's proposed language ensures that use of the NAS in situations not falling squarely within the existing NAS tariff provisions are clearly noted.

B. SEPARATE PGA SURCHARGE PROPOSAL

As to the Department's recommendation to collect the higher demand costs for the Barnesville and Holdingford areas through a separate PGA rather than through the NAS, Xcel offered several arguments against the Department's proposal. These include:

1. Cost Distribution to Class

Xcel has concern that, were the PGA alternative to be approved, costs for commercial and industrial customers may increase to the point that these customers may opt not to take natural gas service, forcing other customers to pay higher prices to make up the difference. Xcel has had conversations with potential customers in the communities to be served which indicated this may happen if prices for commercial and industrial customers are much higher than those proposed by Xcel. The Department agrees that the risk of under-recovery increases if fewer than anticipated commercial and industrial customers in the new area request service.

2. Customer Confusion

Xcel has already done outreach in the communities and has communicated the prices in its proposal to customers there. There is concern that changing the prices and the mechanism for assessing them would cause confusion. This may indeed cause some confusion, but Xcel was well aware that their price calculations would not be firm until they received Commission approval, and therefore should have made that clear to those potential customers. The Department concludes that the Commission should place very little weight on Xcel's customer confusion argument since any confusion would have been avoided had Xcel provided sufficient and complete customer notification.

3. Administrative Concerns

The Department expected that its PGA recommendation could result in administrative difficulties and appreciates Xcel's effort to clarify these issues. The Company's concerns include effects on grain drying customers, the forecast, and administration of two new true-ups.. The Department continues to conclude that a PGA approach to funding extension of service to Holdingford and Barnesville is the more theoretically correct alternative. However, after review of the administrative burden such an approach would create, the Department is

convinced that the PGA alternative is not practical for this case. Further, the NAS approach would be more cost effective and directly charge the new customers all of the related costs.

4. Charging Demand Costs to Interruptible Customers

The Department recognizes that this would be an unusual case if Interruptible customers were charged Demand Costs. However, the Company itself notes that the Commission has ordered that this be done in a few other cases.

5. Under-Recovery Risk

The Department would like to clarify what was meant by the statement on page 7 of our Comments regarding under-recovery risk. In the initial petition, Xcel stated that the costs for the GMG and GMT contracts will be funded by revenue from the NAS riders, but at the end of the Barnesville and Holdingford NAS riders' lifecycles the costs will be moved into the PGA via the Contract Demand Entitlement annual filing. The Department is concerned that by moving remaining contract costs into the PGA, the Company will be able to shift the risk of under-recovery from shareholders to all ratepayers on Xcel's natural gas service in Minnesota. Normally, the NAS model has a safeguard for system ratepayers; specifically, in the event that actual costs of extending service to the new area are not recovered by the end of the approved NAS term, shareholders would pay for the under-recovery. It is possible that when new contracts are negotiated with GMG and GMT, the costs relating to construction of the transmission pipeline used to serve the new area may not have been fully recovered due to cost overruns or other issues. If this were the case, it is the Department's concern that under-recovered construction costs may be embedded in these new contracts. The Department notes that the Company will be able to recover all contract-related costs through the PGA at no risk to their shareholders. This matter must be scrutinized when new contracts are filed for Commission approval in 15 years.

III. CONCLUSION AND RECOMMENDATIONS

After carefully reviewing the Company's arguments against the proposal to fund service expansion to Barnesville and Holdingford through a PGA mechanism, the Department agrees with the Company that the benefits of this approach are outweighed by the costs. Funding extension of service to Holdingford and Barnesville through a PGA mechanism is more theoretically correct but is too administratively burdensome to be a viable alternative to the Company's proposed NAS approach. As such, the Department no longer recommends funding expansion of service to these towns through the PGA and now recommends that the Commission:

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Analyst assigned: Laura B. Otis

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- Approve, for this case only, the update to Xcel's cost of capital as proposed by the Company;
- Approve the Pillager and Holdingford NAS riders as proposed by Xcel;
- Approve the proposed change to Xcel's Tariff (Section 5, Sheet 49 of Xcel's Minnesota Gas Rate Book—MPUC No. 2) as amended above by the Department; and
- Approve the Company's proposed Barnesville NAS rider, but with a \$1 per month reduction to the residential surcharge.

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CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce
Response Comments**

Docket No. G002/M-14-583

Dated this 27th day of **August 2014**

/s/Sharon Ferguson

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