414 Nicollet Mall
Minneapolis, MN 55401

November 14, 2014

Burl W. Haar **—Via Electronic Filing—**
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101

RE: SUPPLEMENTAL REPLY COMMENTS
GAS UTILITY INFRASTRUCTURE COST RIDER
DOCKET NO. G002/M-14-336

Dear Dr. Haar:

Northern States Power Company, doing business as Xcel Energy, submits Comments addressing the October 27, 2014 Reply Comments of the Office of the Attorney General-Antitrust and Utilities Division (OAG) regarding our August 1, 2014 Petition requesting approval of recovery of gas utility infrastructure costs (GUIC) through a GUIC Rider pursuant to Minn. Stat. § 216B.1635. In response to the OAG's Reply Comments, on November 7, 2014 the Department of Commerce, Division of Energy Resources (Department) submitted Comments offering further discussion of its review of our Petition to ensure the Commission has an accurate record. We appreciate the Department's continued recommendations that the Commission approve our Petition.

To clarify the record for the Commission, in these Comments, we respond to four points raised in the OAG's Reply Comments.

## 1. Recovery through the GUIC Rider

The OAG takes the position that the Company should not recover GUIC costs through a rider, but rather in a general rate case. While acknowledging that § 216B.1635 provides statutory authority for the Company to recover gas utility infrastructure costs through a rider, the OAG states that a rate case provides the best mechanism to protect ratepayers. The OAG states that a general rate case allows thorough discovery, an in-depth analysis, and consideration of the revenue requirements of all costs.

The OAG takes specific issue with the two deferred accounting Orders[1] and the corresponding costs associated with the Company's gas pipeline integrity management plans that we included in our Petition. The OAG argues that the Company is essentially seeking reconsideration of those two Orders rather than seeking recovery of the deferred costs in our next general rate case, and that such recovery "requires extensive disclosures for the purpose of determining whether the deferred costs are recoverable."[2]

Both the 2015 forecasted costs and the Commission approved deferred costs are appropriate for GUIC Rider recovery. We seek recovery of the deferred costs through a rider because the deferred costs are consistent with the eligibility requirements as set forth in the recently amended GUIC statute, § 216B.1635. The deferred costs relate to assessments, reassessments, and other work necessary to determine the need for replacement or modification of the gas infrastructure. Additionally, our Petition includes, and the Department reviewed in its investigation, all the information those Orders required submitted when the Company seeks recovery of the deferred costs.

The Company has provided extensive information regarding the deferred costs, as well as the forecasted 2015 costs. In both dockets in which the Commission granted deferred accounting, the Commission required that the Company file a summary of deferred costs 60 days in advance of a filing requesting recovery of these costs. The purpose of this requirement is to ensure sufficient time for review of the deferred costs in a later rate proceeding. Therefore, on April 24, 2014, the Company submitted a compliance filing providing required information related to the Company's deferred gas utility infrastructure costs. Also in the compliance filing, we stated our intention to file this Petition for approval to establish a Gas Utility Infrastructure Cost Rider and recover both 2015 forecast costs, as well as previously deferred costs. In our August 1, 2014 Petition, we provided substantial information regarding TIMP and DIMP project need and descriptions, forecasted 2015 costs, deferred costs, O&M costs, and the revenue requirements.

In addition to the Company's authority in statute to seek cost recovery through a rider mechanism, we note additional customer benefits that flow from exercising this authority. Were the Company to seek a rate increase through a general rate case, the request would include additional costs not reflected in our current Petition. This is because there are other costs which drive our revenue deficiency excluded from this rider Petition.

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[1] Order Approving Deferred Accounting for Costs to Comply with Gas Pipeline Safety Programs, Docket No. G002/M-12-248 (Jan. 28, 2013); Order Granting Deferred Accounting Treatment, Docket No. G002/M-10-422 (Jan. 12, 2011).

[2] OAG Comments at p. 7.

Along with the information provided in our April 24, 2014 pre-filing and August 1, 2014 GUIC Petition, the Company also issued a press release discussing the request, including project details, proposed 2015 cost recovery level, and residential customer bill impacts.

The Department's November 7 Comments in Response to the OAG's Reply Comments further detail the in-depth review and analysis that the Department conducted. We appreciate the Department's substantive and thorough investigation and ultimate approval recommendation.

2. **Previous GUIC Statute**

The OAG questions why the Company did not seek recovery of the deferred costs under the previous initially enacted 2005 GUIC Statute at the time we requested deferred accounting. The 2005 version of the GUIC statute did not provide for recovery of the gas infrastructure costs previously deferred and currently being sought in this Petition. Rather, the previous statute allowed for recovery of costs related to the relocation of natural gas facilities, while the recently amended language allows recovery of the modification and replacement of infrastructure, and also assessments, reassessments, and other work necessary to determine the need for replacement or modification of the gas infrastructure. Therefore, the 2005 version of the GUIC statute did not provide for recovery of the costs included in the deferral Orders.

3. **Cost of Equity**

The Company does not support the OAG's recommendation regarding the return on equity. The Company's actual weather normalized returns filed in each jurisdictional annual report since our last gas rate case demonstrate that we have not over earned the authorized return established in the Company's last case.

As stated in our October 23, 2014 Reply Comments, the Company continues to support use of a 7.56 percent weighted average cost of capital (WACC). The debt rates used in the Company's figure are supported in our current electric rate case, and the Department agrees that the WACC is reasonable.

4. **Rate Design**

The OAG recommends allocating the GUIC Rider costs to class based on the class apportionment of revenues from the Company's last gas rate case, instead of the Class Cost of Service Study (CCOSS) based rate base allocator that the Company recommends. As explained in the Company's Petition, the rate base allocator is most appropriate because it closely resembles how these costs would be assigned to class as part of base rates in a natural gas rate case. The Company does not have a CCOSS at the ordered level of revenue, but as shown in the following table, there is very little difference between the proposed and final level of rate base.

| **Base<br>Docket No. G002/GR-09-1153** | |
|---|---|
| Proposed ($000) | 440,597 |
| Approved ($000) | 438,315 |
| Difference ($000) | -2,282 |
| | -0.5% |

In response to the OAG, the Company has also prepared an allocation for comparison purposes based on the overall base revenue apportionment, which is how the Company has allocated interim increases in gas rate cases. The table below shows the class allocations for the Company's rate base allocation method as proposed, as well as the overall base revenue apportionment. The average monthly bill impact for a typical residential customer is similar in both cases, as shown at the bottom of the table.

| **Class Apportionment** | | | | |
|---|---|---|---|---|
| | **Rate Base Allocation (Company Proposal)** | | **Base Revenue Apportionment** | |
| | % | Millions of $ | % | Millions of $ |
| Residential | 72.9% | $10.876 | 67.1% | $10.047 |
| Commercial Firm | 16.4% | $2.450 | 21.3% | $3.177 |
| Comm Dmd Billed | 1.0% | $0.151 | 2.1% | $0.314 |
| Interruptible | 3.2% | $0.471 | 5.7% | $0.845 |
| Transportation | 6.7% | $0.997 | 3.8% | $0.562 |
| Total | 100.0% | $14.945 | 100.0% | $14.945 |
| | | | | |
| Typical Residential Bill Impact | 3% | $2.22 | 3% | $2.05 |

In conclusion, we clarify that the Company is authorized through the recently amended GUIC statute to seek recovery of gas infrastructure costs through a rate rider, and we note that the Company has provided sufficient information on its deferred and forecasted costs on which the Commission can make its determination. We note that we support the Department's suggested WACC rate of 7.56 percent, but we do not support the OAG's recommendation of a lower rate of return on equity. Finally, we note that the Company's proposed rider rate design closely resembles the cost allocations that would be used in a natural gas rate case, and is therefore appropriate for the proposed rider.

We have electronically filed this document with the Commission, and copies have been served on the parties on the attached service list. Please contact me at (612) 330-6613 or amy.a.liberkowski@xcelenergy.com if you have any questions regarding this matter.

SINCERELY,

/s/

AMY A. LIBERKOWSKI
MANAGER, REGULATORY ANALYSIS

c: Service List

# Certificate of Service

I, Tiffany R. Hughes, hereby certify that I have this day served copies or summaries of the foregoing document on the attached list(s) 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 No. G002/M-14-336**

Dated this 14th day of November 2014

/s/

______________________________

Tiffany R. Hughes
Records Analyst

| First Name | Last Name | Email | Company Name | Address | Delivery Method | View Trade Secret | Service List Name |
|---|---|---|---|---|---|---|---|
| Christopher | Anderson | canderson@allete.com | Minnesota Power | 30 W Superior St<br><br>Duluth,<br>MN<br>558022191 | Electronic Service | No | OFF_SL_14-336_M-14-336 |
| Julia | Anderson | Julia.Anderson@ag.state.mn.us | Office of the Attorney General-DOC | 1800 BRM Tower<br>445 Minnesota St<br>St. Paul,<br>MN<br>551012134 | Electronic Service | Yes | OFF_SL_14-336_M-14-336 |
| Alison C | Archer | alison.c.archer@xcelenergy.com | Xcel Energy | 414 Nicollet Mall FL 5<br><br>Minneapolis,<br>MN<br>55401 | Electronic Service | No | OFF_SL_14-336_M-14-336 |
| Gail | Baranko | gail.baranko@xcelenergy.com | Xcel Energy | 414 Nicollet Mall7th Floor<br><br>Minneapolis,<br>MN<br>55401 | Electronic Service | No | OFF_SL_14-336_M-14-336 |
| William A. | Blazar | bblazar@mnchamber.com | Minnesota Chamber Of Commerce | Suite 1500<br>400 Robert Street North<br>St. Paul,<br>MN<br>55101 | Electronic Service | No | OFF_SL_14-336_M-14-336 |
| Michael | Bradley | mike.bradley@lawmoss.com | Moss & Barnett | 150 S. 5th Street, #1200<br><br>Minneapolis,<br>MN<br>55402 | Electronic Service | No | OFF_SL_14-336_M-14-336 |
| George | Crocker | gwillc@nawo.org | North American Water Office | PO Box 174<br><br>Lake Elmo,<br>MN<br>55042 | Electronic Service | No | OFF_SL_14-336_M-14-336 |
| Jeffrey A. | Daugherty | jeffrey.daugherty@centerpointenergy.com | CenterPoint Energy | 800 LaSalle Ave<br><br>Minneapolis,<br>MN<br>55402 | Electronic Service | No | OFF_SL_14-336_M-14-336 |
| Ian | Dobson | ian.dobson@ag.state.mn.us | Office of the Attorney General-RUD | Antitrust and Utilities Division<br>445 Minnesota Street, 1400 BRM Tower<br>St. Paul,<br>MN<br>55101 | Electronic Service | No | OFF_SL_14-336_M-14-336 |
| Rebecca | Eilers | rebecca.d.eilers@xcelenergy.com | Xcel Energy | 414 Nicollet Mall, 7th Floor<br><br>Minneapolis,<br>MN<br>55401 | Electronic Service | No | OFF_SL_14-336_M-14-336 |

| First Name | Last Name | Email | Company Name | Address | Delivery Method | View Trade Secret | Service List Name |
|---|---|---|---|---|---|---|---|
| Sharon | Ferguson | sharon.ferguson@state.mn.us | Department of Commerce | 85 7th Place E Ste 500<br><br>Saint Paul,<br>MN<br>551012198 | Electronic Service | No | OFF_SL_14-336_M-14-336 |
| Edward | Garvey | garveyed@aol.com | Residence | 32 Lawton St<br><br>Saint Paul,<br>MN<br>55102 | Electronic Service | No | OFF_SL_14-336_M-14-336 |
| Benjamin | Gerber | bgerber@mnchamber.com | Minnesota Chamber of Commerce | 400 Robert Street North<br>Suite 1500<br>St. Paul,<br>Minnesota<br>55101 | Electronic Service | No | OFF_SL_14-336_M-14-336 |
| Elizabeth | Goodpaster | bgoodpaster@mncenter.org | MN Center for Environmental Advocacy | Suite 206<br>26 East Exchange Street<br>St. Paul,<br>MN<br>551011667 | Electronic Service | No | OFF_SL_14-336_M-14-336 |
| Todd J. | Guerrero | todd.guerrero@kutakrock.com | Kutak Rock LLP | Suite 1750<br>220 South Sixth Street<br>Minneapolis,<br>MN<br>554021425 | Electronic Service | No | OFF_SL_14-336_M-14-336 |
| Burl W. | Haar | burl.haar@state.mn.us | Public Utilities Commission | Suite 350<br>121 7th Place East<br>St. Paul,<br>MN<br>551012147 | Electronic Service | Yes | OFF_SL_14-336_M-14-336 |
| Annete | Henkel | mui@mnutilityinvestors.org | Minnesota Utility Investors | 413 Wacouta Street<br>#230<br>St.Paul,<br>MN<br>55101 | Electronic Service | No | OFF_SL_14-336_M-14-336 |
| Sandra | Hofstetter | N/A | MN Chamber of Commerce | 7261 County Road H<br><br>Fremont,<br>WI<br>54940-9317 | Paper Service | No | OFF_SL_14-336_M-14-336 |
| Michael | Hoppe | il23@mtn.org | Local Union 23, I.B.E.W. | 932 Payne Avenue<br><br>St. Paul,<br>MN<br>55130 | Electronic Service | No | OFF_SL_14-336_M-14-336 |
| Eric | Jensen | ejensen@iwla.org | Izaak Walton League of America | Suite 202<br>1619 Dayton Avenue<br>St. Paul,<br>MN<br>55104 | Electronic Service | No | OFF_SL_14-336_M-14-336 |

| First Name | Last Name | Email | Company Name | Address | Delivery Method | View Trade Secret | Service List Name |
|---|---|---|---|---|---|---|---|
| Richard | Johnson | Rick.Johnson@lawmoss.com | Moss & Barnett | 150 S. 5th Street<br>Suite 1200<br>Minneapolis,<br>MN<br>55402 | Electronic Service | No | OFF_SL_14-336_M-14-336 |
| Michael | Krikava | mkrikava@briggs.com | Briggs And Morgan, P.A. | 2200 IDS Center<br>80 S 8th St<br>Minneapolis,<br>MN<br>55402 | Electronic Service | No | OFF_SL_14-336_M-14-336 |
| Amy | Liberkowski | amy.a.liberkowski@xcelenergy.com | Xcel Energy | 414 Nicollet Mall<br>7th Floor<br>Minneapolis,<br>MN<br>554011993 | Electronic Service | No | OFF_SL_14-336_M-14-336 |
| John | Lindell | agorud.ecf@ag.state.mn.us | Office of the Attorney General-RUD | 1400 BRM Tower<br>445 Minnesota St<br>St. Paul,<br>MN<br>551012130 | Electronic Service | Yes | OFF_SL_14-336_M-14-336 |
| Eric | Lipman | eric.lipman@state.mn.us | Office of Administrative Hearings | PO Box 64620<br>St. Paul,<br>MN<br>551640620 | Electronic Service | Yes | OFF_SL_14-336_M-14-336 |
| Matthew P | Loftus | matthew.p.loftus@xcelenergy.com | Xcel Energy | 414 Nicollet Mall FL 5<br>Minneapolis,<br>MN<br>55401 | Electronic Service | No | OFF_SL_14-336_M-14-336 |
| Pam | Marshall | pam@energycents.org | Energy CENTS Coalition | 823 7th St E<br>St. Paul,<br>MN<br>55106 | Electronic Service | No | OFF_SL_14-336_M-14-336 |
| Mary | Martinka | mary.a.martinka@xcelenergy.com | Xcel Energy Inc | 414 Nicollet Mall<br>7th Floor<br>Minneapolis,<br>MN<br>55401 | Electronic Service | No | OFF_SL_14-336_M-14-336 |
| David | Moeller | dmoeller@allete.com | Minnesota Power | 30 W Superior St<br>Duluth,<br>MN<br>558022093 | Electronic Service | No | OFF_SL_14-336_M-14-336 |
| Andrew | Moratzka | apmoratzka@stoel.com | Stoel Rives LLP | 33 South Sixth Street<br>Suite 4200<br>Minneapolis,<br>MN<br>55402 | Electronic Service | No | OFF_SL_14-336_M-14-336 |

| First Name | Last Name | Email | Company Name | Address | Delivery Method | View Trade Secret | Service List Name |
|---|---|---|---|---|---|---|---|
| David W. | Niles | david.niles@avantenergy.com | Minnesota Municipal Power Agency | Suite 300<br>200 South Sixth Street<br>Minneapolis,<br>MN<br>55402 | Electronic Service | No | OFF_SL_14-336_M-14-336 |
| Richard | Savelkoul | rsavelkoul@martinsquires.com | Martin & Squires, P.A. | 332 Minnesota Street Ste W2750<br><br>St. Paul,<br>MN<br>55101 | Electronic Service | No | OFF_SL_14-336_M-14-336 |
| James M. | Strommen | jstrommen@kennedy-graven.com | Kennedy & Graven, Chartered | 470 U.S. Bank Plaza<br>200 South Sixth Street<br>Minneapolis,<br>MN<br>55402 | Electronic Service | No | OFF_SL_14-336_M-14-336 |
| SaGonna | Thompson | Regulatory.Records@xcelenergy.com | Xcel Energy | 414 Nicollet Mall FL 7<br><br>Minneapolis,<br>MN<br>554011993 | Electronic Service | No | OFF_SL_14-336_M-14-336 |