

June 19, 2015

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Supplemental Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G002/M-15-194

Dear Mr. Wolf:

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

Petition of Northern States Power Company, d/b/a Xcel Energy, for Approval of a Modification to the Natural Gas State Energy Policy (SEP) Tariff Rate, 2015 Project Eligibility, 2015 SEP Adjustment Factor, and 2014 SEP Compliance Filing.

The Petition was filed on March 2, 2015 by:

Paul J. Lehman
Manager, Regulatory Compliance and Filings
Xcel Energy Service Inc.
414 Nicollet Mall - 7th Floor
Minneapolis, Minnesota 55401

The Department recommends the Commission approve Xcel Energy's petition with a condition to require additional reporting and is available to answer any questions the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ JOHN KUNDERT
Financial Analyst

JK/lt
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET No. G002/M-15-194

I. BACKGROUND

On March 2, 2015, Northern States Power Company d/b/a Xcel Energy (Xcel Energy, Xcel or the Company) filed its *Petition for Approval of a Modification to the Natural Gas State Energy Policy Rider Tariff (SEP Rider, 2015 SEP Rate Factor, and 2014 SEP Compliance Filing (Petition))*.

On May 1, 2014, the Minnesota Department of Commerce, Division of Energy Resource (Department or DOC) filed comments.

- The Department requested that Xcel discuss its preferred approach for modifying the Commission's current reporting requirements regarding the tracking of carbon or greenhouse gas offsets in its reply comments.
- The Department was also waiting for more information from the Company regarding an updated calculation of the natural gas SEP Rider rate due to a discrepancy related to Interdepartmental Sales that Xcel discovered while developing its response to a Department information request.
- In addition, the Department was waiting to see if the Minnesota Legislature would extend the Department's legislative authority to assess utilities for Reliability Administrator-related costs beyond June 30, 2015.

On May 26, 2015, Xcel Energy filed its reply comments. Regarding Xcel's updated natural gas SEP Rider rate calculation, the Company proposed a one-time adjustment of \$1.124 million to the SEP natural gas tracker account to correct for underreported revenues since 2008. The Company also discussed its preferred approach to modifying the Commission's current reporting requirements regarding the tracking of carbon or greenhouse gas offsets. Xcel also included a cost/benefit analysis of the potential for voluntarily registering the offsets associated with the Cast Iron Replacement Project whose costs are currently recovered through the natural gas SEP Rider.

II. DEPARTMENT ANALYSIS

A. REASONABLENESS OF THE PROPOSED NATURAL GAS SEP RIDER RATE

1. *Energy-Related Mandates*

As noted in the Department's comments filed on May 1, 2015, Xcel Energy proposed to include costs associated with two legislative mandates: Reliability Administrator (RA), and Sustainable Building Guidelines (SBG). The proposed budget includes RA and SBG costs of \$33,524 for 2015.

The 2015 Minnesota Legislature extended the Department's authority to assess RA costs until June 30, 2017 in a bill passed during the first special session on June 8, 2015. Governor Dayton signed the legislation on June 13, 2015. The Department concludes that the proposed budget for the RA and SBG costs included in Xcel's Petition is reasonable.

2. *Carbon and Greenhouse Gas Offsets*

Xcel Energy made the following recommendations in its reply comments.

1. That we not at this time pursue creating verifying and selling carbon offset credits from our cast iron pipe replacement activities, since the level of effort would be significant and the net proceeds that could be returned to customers would be, we believe, small or negative.
2. The Company will continue reporting to the EPA, under Subpart W of the EPA's greenhouse gas reporting program, our CO₂-equivalent emissions from the natural gas system. We are happy to continue providing a copy of these reports to the Commission in our annual SEP filing.
3. The Company agrees with the Department that the Commission's requirements regarding carbon offsets are not consistent with the current regulatory reality, and proposes the Commission rescind those reporting requirements.

The Department offers the following comments regarding Xcel's first recommendation. While the Department agrees that the net proceeds from an effort to create, verify and sell carbon offsets from Xcel's cast iron replacement activities will not be financially significant, the Department notes that requiring Xcel to pursue this activity would provide the Commission, the Department (State Regulatory Agencies) and other interested stakeholders with valuable experience and potentially valuable expertise. Xcel's development of a voluntary emissions program for carbon dioxide and greenhouse gases would allow the Company and the State Regulatory Agencies to explore the concept of greenhouse gas emissions markets in a concrete, albeit small-scale fashion. It may also provide the

Company's ratepayers with an opportunity to recover a portion of the costs associated with Xcel's efforts to lower its carbon dioxide emissions on a broader scale.

Consequently, the Department recommends the Commission require Xcel to develop and submit to the Commission a more refined cost estimate and project plan for the implementation of a voluntary carbon dioxide and greenhouse gas program for the emissions avoided as a result of the cast iron main replacement activities included in the SEP within 90 days of the Commission's Order.

As for Xcel's second recommendation, the Department appreciates the Company's offer to continue to provide the information it provides to the EPA under Subpart W of the EPA's greenhouse gas reporting program in the annual SEP filing.

The Department reaches a different conclusion relative to Xcel's third recommendation. The Department would rather the Commission delay its decision on whether to retain or rescind the existing reporting requirements included in its *Order Accepting and Modifying Petition Regarding State Energy Policy Rider* in Docket No. E,G002/M-08-261, dated November 25, until it has had an opportunity to review the potential of a voluntary emissions trading program.

3. Revised Rate Calculation

Updated Table 1 below summarizes Xcel Energy's calculation of its proposed natural gas SEP Rider rate assuming its RA costs are eligible for recovery through the SEP Rider.

Revised Table 1: Company Proposed Natural Gas SEP Rider Rate

	Approved 2014	Proposed 2015	\$ Change	% Change
RA/SBG Costs	\$20,621	\$33,524	\$12,903	62.6%
Cast Iron Pipe Costs	\$1,964,495	\$1,901,501	(\$62,994)	(3.21%)
Cast Iron O&M Credit ¹	(\$72,310)	(\$72,310)	\$0	0%
Tracker True-up	\$114,973	(\$44,883)	(\$159,856)	(139%)
Sub-total Costs	\$2,027,780	\$1,817,832	(\$209,948)	(10.4%)
Interdepartmental Sales Revenue Adjustment	NA	\$1,124,396	(\$1,124,396)	NA
Revenue Requirement	\$2,027,780	\$693,437	(\$1,334,343)	(65.8%)
Therm Sales Forecast	906,126,034	957,634,516	51,508,482	5.68%
Factor per therm	\$0.002238	\$0.000724	(.0001514)	(67.6%)

¹ Xcel Energy notes in footnote 2 of Attachment D3 of its Petition that the O&M credit approved for 2013 and beyond will not change going forward since all replacement work has been completed.

III. RECOMMENDATIONS

The Department's review of the Company Petition confirms that it fulfills the Commission's reporting requirements contained in the following Orders:

- *Order Approving State Energy Policy Rider, as Modified* in Docket No. E,G002/M-03-1544, dated April 6, 2004;
- *Order Approving Modification of the Natural As State Energy Policy Tariff Rate, E,G-002/M-14-185, and*
- *Order Accepting and Modifying Petition Regarding State Energy Policy Rider* in Docket No. E,G002/M-08-261, dated November 25, 2008.

The Department recommends that the Commission

- Approve the proposed Xcel Energy's proposed 2015-2016 natural gas SEP adjustment factor of \$0.000724/therm;
- Approve the Company's proposed customer notice included in the Petition, adjusted to incorporate the updated adjustment factor; and
- Require Xcel to develop and submit to the Commission a more refined cost estimate and project plan for implementation of a voluntary carbon dioxide and greenhouse gas program for the emissions avoided as a result of the cast iron main replacement activities included in the SEP within 90 days of the Commission's Order.

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CERTIFICATE OF SERVICE

I, Linda Chavez, hereby certify that I have this day served copies of the following document on the attached list of persons by electronic filing, 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 – SUPPLEMENTAL COMMENTS

Docket Nos. **G002/M-15-194**

Dated this **19th** day of **June, 2015**.

/s/Linda Chavez

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