

August 24, 2015

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

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**  
Docket No. E,G002/M-15-618

Dear Mr. Wolf:

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

A Request by Northern States Power Company, doing business as Xcel Energy, (Xcel) for an Extension of its Gas Capacity Utilization Accounting Treatment.

The Petition was filed on June 24, 2015. The petitioner is:

Paul J. Lehman  
Manager, Regulatory Compliance and Filings  
Xcel Energy Services, Inc.  
414 Nicollet Mall – 7<sup>th</sup> Floor  
Minneapolis, MN 55401

The Department recommends that the Minnesota Public Utilities Commission (Commission) **approve** Xcel's natural gas Capacity Utilization Plan as a permanent program.

The Department is available to answer any questions the Commission may have.

Sincerely,

/s/ MICHELLE ST. PIERRE  
Financial Analyst

MS/lt  
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE  
MINNESOTA DEPARTMENT OF COMMERCE  
DIVISION OF ENERGY RESOURCES

DOCKET No. E,G002/M-15-618

**I. SUMMARY OF COMPANY'S PETITION**

On June 24, 2015, Northern States Power Company, doing business as Xcel Energy, (Xcel Energy, Xcel, or the Company) filed a Petition requesting approval of a permanent extension of the accounting treatment for the natural gas Capacity Utilization Plan for its gas distribution and electric generation business units pursuant to Minn. Stat. § 216B.10 which grants the Minnesota Public Utilities Commission (Commission) jurisdiction over the accounting practices of public utilities.

In its Petition, Xcel Energy stated that:

Our request is in the public interest because, as the pilot program demonstrated, the plan provides efficiencies as well as cost-savings benefits for our customers. Expenses that would otherwise be paid to third parties are instead paid to NSP Gas or NSP Generation,[<sup>1</sup>] depending on the situation.<sup>2</sup>

Regarding savings for the gas utility, Xcel stated that "Over the course of three years, the pilot resulted in a net savings to NSP Gas of approximately \$249,000 (which includes capacity sharing transaction savings of approximately \$128,000, storage diversion savings of approximately \$1,000, and avoided storage fees of approximately \$119,000 through storage nettings)."<sup>3</sup>

Concerning savings for the electric utility, the Company stated that "During the three years of the pilot, NSP Generation realized approximately \$202,000 of net savings (which includes

---

<sup>1</sup> The Department notes that NSP Gas and NSP Generation are separate business areas within one utility rather than separate legal entities.

<sup>2</sup> Petition, page 2.

<sup>3</sup> Petition, page 4. See Xcel's Petition, Table 1, for NSP Gas' detail by year from July 1, 2010 through April 2015. After the three years, the program provided additional net savings of \$68,588 in 2013-2014 and \$17,033 in 2014 - April 2015 for a grand total of \$334,432.

a cost of approximately \$128,000 for capacity sharing transactions, a cost of approximately \$1,000 of storage diversion transactions, and approximately \$332,000 of savings through storage netting).”<sup>4</sup>

Xcel described the mechanics of the program:

NSP Generation and NSP Gas both contract for firm transportation services on the Northern Natural Gas (NNG) and Viking Gas Transmission (VGT) systems. Periodically, one entity may not be using all of its contracted capacity when the other entity could use the capacity. NSP Gas and NSP Generation effectively purchase firm capacity from each other instead of purchasing interruptible capacity from an interstate pipeline.<sup>5</sup>

Further,

For capacity sharing and storage diversion transactions, a savings to NSP Gas results in a cost to NSP Generation and vice versa. However, we note that the cost incurred by the jurisdiction utilizing shared capacity would have been incurred anyway even if the capacity sharing program were not in place. The program simply ensures that payments for excess transportation capacity are directed to NSP customers instead of third parties when possible. The savings realized under the pilot were passed on to retail natural gas and electric customers through the FCA, the PGA, and related true ups.<sup>6</sup>

Xcel anticipates that potential upcoming FERC<sup>7</sup> changes may increase the net benefits of the program:

While the benefits realized during the pilot program were modest, based on changes to natural gas and electric market timelines required by FERC in Order 809 issued on April 16, 2015, we anticipate the net benefits of the program may increase. The FERC order requires that natural gas pipelines move the deadline for the timely nomination cycle by which the first traunch of gas for each gas day must be scheduled back one and one half hours from 11:30 central prevailing time (CPT) to 13:00 CPT to provide generators with more time to formulate generation operations plans for the next day. An additional intraday scheduling cycle for natural gas will also be added to

---

<sup>4</sup> *Id.* See Xcel’s Petition, Table 2, for NSP Generation’s detail by year from July 1, 2010 through April 2015. After the three years, the program provided additional net savings of \$145,422 in 2013-2014 and \$86,231 in 2014 - April 2015 for a grand total of \$434,068.

<sup>5</sup> Petition, page 6.

<sup>6</sup> Petition, page 4.

<sup>7</sup> Federal Energy Regulatory Commission.

provide generators with increased flexibility to adjust to changing fuel requirements in real time.

The purpose of these FERC changes is to improve electric grid reliability by minimizing variances between the gas and electric markets that can contribute to fuel constraints during the winter. With greater certainty around gas requirements for generation before the timely nomination cycle deadline, the Company will also have more certainty around the availability of firm pipeline transportation capacity for sharing while there is still time for scheduling changes in the timely nomination cycle. Even if opportunities for sharing remain limited, customers will still benefit modestly as the pilot demonstrated.<sup>8</sup>

Xcel noted that the increase in program revenue would have no effect on the Company's earnings:

The accounting treatment provides for recovery of natural gas transportation capacity and storage costs from Xcel Energy's retail customers pursuant to the FCA, PGA and related true-ups, as is the current practice. The additional revenue would be offset by the costs and have no net change on the Company's earnings.<sup>9</sup>

## II. BACKGROUND

On February 18, 2010, the Commission approved, as a three-year pilot program, Xcel Energy's natural gas Capacity Utilization Program for its gas distribution and electric generation business units.<sup>10</sup> Xcel maintains distinct natural gas transportation capacity and storage contracts for Xcel Gas and Xcel Generation. The program allowed for capacity sharing between the gas distribution and electric generation business units.<sup>11</sup> The Commission's February 18, 2010 Order required Xcel Energy to include in its future AAA reports, a listing of each individual transaction showing quantities and cost, the specific accounting entries, and brief explanations of the transactions.

The approved three-year pilot program expired on February 18, 2013.

In the Department's Annual Automatic Adjustment report (AAA Report), Docket No. G999/AA-14-580 (Docket No. 14-580), the Department, Xcel, and Commission Staff

---

<sup>8</sup> Petition, page 5.

<sup>9</sup> Petition, page 9.

<sup>10</sup> February 18, 2010 *Order Approving Program, With Modifications and Requiring Report* (February 18, 2010 Order), Docket No. E,G002/M-09-852 (Docket No. 09-852).

<sup>11</sup> See the Petition, pages 6 and 7 for examples of capacity sharing.

commented on the Capacity Utilization Program.<sup>12</sup> The parties deferred to the Commission on the best procedural manner to move the issue forward. At the Commission's August 6, 2015 Agenda meeting, the Commission heard the Department's AAA Report.<sup>13</sup> Regarding the Capacity Utilization Program, the Commission decided to:

- defer consideration of Xcel Energy's Capacity Utilization Program as a permanent program to Docket No. E,G002/M-15-618; and
- grant Xcel an extension of time to use the accounting treatment under the Capacity Utilization Program from the date the pilot program ended through the date of the Commission Order in Docket No. E,G002/M-15-618.

### III. DEPARTMENT ANALYSIS

Below, the Department responds to Xcel's proposals and provides its analysis of Xcel's request for a permanent extension to its Capacity Utilization Plan. As discussed below, the Department recommends that the Commission approve Xcel's Capacity Utilization Plan as a permanent program.

#### 1. *Capacity sharing impact on Interruptible customers*

In its Petition, Xcel proposed "to identify capacity-sharing transactions executed to avoid curtailing interruptible customer usage and allocate the costs of those transactions directly to interruptible customers."<sup>14</sup> Specifically, Xcel stated that its "proposal is consistent with how we currently handle capacity purchases from interstate pipelines to avoid curtailing interruptible customer usage."<sup>15</sup> Further, Xcel proposed to continue using "the same methodology to allocate costs to interruptible classes in the annual true-up filing" as approved in Docket No. G999/AA-12-756<sup>16</sup> (Docket No. 12-756), Order dated November 14, 2013.<sup>17</sup> The Department notes that in that docket, Order Paragraph 23 states, "Xcel shall continue assigning any interruptible capacity or overrun purchases associated with non-curtailment days directly to the interruptible classes."

Additionally, the issue of the assignment of capacity costs to interruptible classes was vetted in the program's initial approval in Docket No. 09-852. The Commission's February 18, 2010 *Order Approving Program, with Modifications and Requiring Report* stated that "NSP Gas is not allowed to obtain additional capacity that would be used so interruptible customers would not have to be curtailed, unless these capacity costs were directly assigned to the interruptible classes."<sup>18</sup>

---

<sup>12</sup> Xcel's Petition refers to the program as a plan.

<sup>13</sup> The Order was pending at the time of writing these Comments.

<sup>14</sup> Petition, page 7.

<sup>15</sup> *Id.*

<sup>16</sup> The FYE12 AAA Report.

<sup>17</sup> *Id.*

<sup>18</sup> Order paragraph 1 (c).

In its Petition, Xcel also proposed “to track and report two categories of capacity sharing transactions – those used to not curtail interruptible customers and other transactions that benefit the whole system.”<sup>19</sup> In Docket No. 14-580, the Department agreed with Xcel’s proposal and concluded that this accounting and reporting would complement Xcel’s compliance report for the program.<sup>20</sup> Thus, the Department recommended that the Commission require Xcel to report the two categories of capacity sharing transactions.<sup>21</sup> In Docket No. 14-580, Xcel agreed to this reporting requirement.<sup>22</sup> Therefore, the Department now recommends that the Commission accept Xcel’s agreement to report the two categories of capacity sharing transactions – those used to not curtail interruptible customers and other transactions that benefit the whole system for the Capacity Utilization Program.

## 2. *FERC Account 858*

In its 2009 Capacity Utilization Program petition, Xcel stated that it would create a subaccount to FERC Account 858 to separately track and report the transactions.<sup>23</sup> Instead, Xcel found that, functionally, it needed to create subaccount 1050 in its own accounting system (JD Edwards) to be able to make the necessary journal entries.<sup>24</sup> The Department does not oppose this change since it appears to be an effective solution.

## 3. *Storage Netting and Storage Diversification*

Regarding storage netting, Xcel stated that in its 2009 Capacity Utilization Program petition, the Company noted its intent to consolidate its NNG storage contracts for its gas and electric companies and use NNG’s storage netting program.<sup>25</sup> In June 2010, the contracts were consolidated and Xcel began using NNG’s storage netting program.<sup>26</sup> According to Xcel, since the contracts were consolidated there is no need or benefit of using storage diversion transactions.<sup>27</sup> The Department does not oppose this change.

## 4. *Reporting*

Regarding reporting, Xcel stated the following:

We will continue to list each transaction along with a brief description, quantities and cost, and specific accounting

---

<sup>19</sup> Petition, page 7.

<sup>20</sup> Department’s July 16, 2015 *Supplemental Response Comments*, page 2.

<sup>21</sup> *Id.*

<sup>22</sup> Xcel’s July 22, 2015 *Reply Comments*, page 1.

<sup>23</sup> See Xcel’s April 28, 2010 Compliance filing in Docket No. 09-852, Example 2.

<sup>24</sup> Petition, page 8.

<sup>25</sup> *Id.*

<sup>26</sup> In its Petition Xcel stated, “Unlike capacity sharing, storage netting does not involve one business area using another’s assets. Instead, consolidated contracts provide administrative efficiencies, such as with the nomination process, and the opportunity to use NNG’s storage netting program.” Petition, page 8.

<sup>27</sup> According to Xcel, “A storage diversion transaction is when instead of one entity withdrawing gas from storage while the second entity is injecting gas into storage, the gas for injection would be diverted to the first entity’s needs and a transfer of storage gas to the second entity would happen ‘on paper.’” Petition, page 9.

entries. We would track recovery of the costs and the credits to retail natural gas and electric customers through those adjustments and related true-ups.

In addition we propose to track capacity sharing transactions executed solely for the benefit of interruptible natural gas customers, allocate the costs directly to interruptible natural gas customers, and report on these transactions in the Gas AAA.<sup>28</sup>

From the Department's review of past compliances on the pilot program, Xcel only reported the gas side of the transactions in its compliance reports.<sup>29</sup> In its July 16, 2015 *Supplemental Response Comments* in Docket No. 14-580, the Department concluded that Xcel should show the electric side as well as the gas side of the transactions in its annual compliance reports.<sup>30</sup> Thus, the Department recommended that the Commission require Xcel to continue to report the transactions related to the Capacity Utilization Plan annually in its AAA Report and include both the gas and electric transactions. In Docket No. 14-580, Xcel agreed to this reporting requirement.<sup>31</sup> Therefore, the Department now recommends that the Commission accept Xcel's agreement to continue to report on the transactions related to the Capacity Utilization Plan annually in its AAA Report and include both the gas and electric transactions.

##### 5. *Pilot to Permanent Program*

The Department notes that in most aspects, Xcel's proposed permanent program is the same as its pilot program.<sup>32</sup> In its February 18, 2010 Order, the Commission stated: "[A]dopting the Program as a pilot project will allow the Commission to evaluate whether the transactions are appropriate and if there are enough of them to create accounting problems before granting long term approval."<sup>33</sup>

There was only one accounting problem noted during the pilot program. In the initial year of the pilot, Xcel misallocated approximately \$570,000 of storage demand costs.<sup>34</sup> In Xcel's response to Commission Staff's Information Request No. 1(C) in Docket No. 14-580, the Company indicated that the program had nothing to do with the misallocated costs, which contradicts Xcel's statement in the Company's August 31, 2012 AAA Report where Xcel stated that the misallocated storage demand costs were associated with the gas capacity

---

<sup>28</sup> Petition, page 9.

<sup>29</sup> The detail of the storage netting transactions were also missing from Xcel's FYE14 AAA Report. On July 2, 2015, Commission Staff issued Information Request No. 1 to Xcel in Docket No. 14-580 to receive that information which Xcel provided on July 13, 2015.

<sup>30</sup> Department's *Supplemental Response Comments*, page 3.

<sup>31</sup> Xcel's July 22, 2015 *Reply Comments*, page 1.

<sup>32</sup> As mentioned above, storage diversion is no longer needed.

<sup>33</sup> February 18, 2010 Order, page 2.

<sup>34</sup> The Commission approved a variance in its November 13, 2013 Order in Docket No. 12-756 to correct this error in the 2012 true-up calculation.

utilization program in Docket No. G002/M-09-892.<sup>35</sup> However, the Company also stated in its response to Commission Staff that “[t]he allocated storage demand expense update made in Docket No. G002/AA-12-945<sup>36</sup> was a one-time allocation correction to prior years that did not impact any subsequent allocation or reporting.” This statement appears to be correct since there have been no further accounting problems noted during the remainder of the pilot program. Furthermore, the Department concludes that this one-time allocation error should not detract from the significant savings the program has provided to ratepayers.

Based on its analysis, the Department recommends that the Commission approve Xcel’s Capacity Utilization Plan as a permanent program.

#### IV. RECOMMENDATION

The Department recommends that the Commission:

- approve Xcel’s Capacity Utilization Plan as a permanent program;
- accept Xcel’s agreement to report the two categories of capacity sharing transactions – those used to not curtail interruptible customers and other transactions that benefit the whole system for the Capacity Utilization Plan; and
- accept Xcel’s agreement to continue to report on the transactions related to the Capacity Utilization Plan annually in its AAA Report and include both the gas and electric transactions.

/lt

---

<sup>35</sup> Xcel’s Attachment B, Schedule 5, pages 1 and 2.

<sup>36</sup> Xcel’s true-up docket related to the 2012 AAA Report, Docket No. G999/AA-12-756.



## **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. E,G002/M-15-618**

**Dated this 24<sup>th</sup> day of August 2015**

**/s/Sharon Ferguson**

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  Duluth, MN 558022191	Electronic Service	No	OFF_SL_15-618_M-15-618
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_15-618_M-15-618
Alison C	Archer	alison.c.archer@xcelenergy.com	Xcel Energy	414 Nicollet Mall FL 5  Minneapolis, MN 55401	Electronic Service	No	OFF_SL_15-618_M-15-618
James J.	Bertrand	james.bertrand@leonard.com	Leonard Street & Deinard	150 South Fifth Street, Suite 2300  Minneapolis, MN 55402	Electronic Service	No	OFF_SL_15-618_M-15-618
Michael	Bradley	mike.bradley@lawmoss.com	Moss & Barnett	150 S. 5th Street, #1200  Minneapolis, MN 55402	Electronic Service	No	OFF_SL_15-618_M-15-618
Jeffrey A.	Daugherty	jeffrey.daugherty@centerpointenergy.com	CenterPoint Energy	800 LaSalle Ave  Minneapolis, MN 55402	Electronic Service	No	OFF_SL_15-618_M-15-618
Ian	Dobson	ian.dobson@ag.state.mn.us	Office of the Attorney General-RUD	Antitrust and Utilities Division 445 Minnesota Street, 1400 BRM Tower St. Paul, MN 55101	Electronic Service	No	OFF_SL_15-618_M-15-618
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500  Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_15-618_M-15-618
Todd J.	Guerrero	todd.guerrero@kutakrock.com	Kutak Rock LLP	Suite 1750 220 South Sixth Street Minneapolis, MN 554021425	Electronic Service	No	OFF_SL_15-618_M-15-618
Sandra	Hofstetter	N/A	MN Chamber of Commerce	7261 County Road H  Fremont, WI 54940-9317	Paper Service	No	OFF_SL_15-618_M-15-618

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Michael	Hoppe	il23@mtn.org	Local Union 23, I.B.E.W.	932 Payne Avenue  St. Paul, MN 55130	Electronic Service	No	OFF_SL_15-618_M-15-618
Alan	Jenkins	aj@jenkinsatlaw.com	Jenkins at Law	2265 Roswell Road Suite 100 Marietta, GA 30062	Electronic Service	No	OFF_SL_15-618_M-15-618
Richard	Johnson	Rick.Johnson@lawmoss.com	Moss & Barnett	150 S. 5th Street Suite 1200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_15-618_M-15-618
Mark J.	Kaufman	mkaufman@ibewlocal949.org	IBEW Local Union 949	12908 Nicollet Avenue South  Burnsville, MN 55337	Electronic Service	No	OFF_SL_15-618_M-15-618
Thomas	Koehler	TGK@IBEW160.org	Local Union #160, IBEW	2909 Anthony Ln  St Anthony Village, MN 55418-3238	Electronic Service	No	OFF_SL_15-618_M-15-618
Michael	Krikava	mkrikava@briggs.com	Briggs And Morgan, P.A.	2200 IDS Center 80 S 8th St Minneapolis, MN 55402	Electronic Service	No	OFF_SL_15-618_M-15-618
Douglas	Larson	dlarson@dakotaelectric.com	Dakota Electric Association	4300 220th St W  Farmington, MN 55024	Electronic Service	No	OFF_SL_15-618_M-15-618
John	Lindell	agorud.ecf@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_15-618_M-15-618
Pam	Marshall	pam@energycents.org	Energy CENTS Coalition	823 7th St E  St. Paul, MN 55106	Electronic Service	No	OFF_SL_15-618_M-15-618
Andrew	Moratzka	apmoratzka@stoel.com	Stoel Rives LLP	33 South Sixth Street Suite 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_15-618_M-15-618

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 300 200 South Sixth Street Minneapolis, MN 55402	Electronic Service	No	OFF_SL_15-618_M-15-618
Richard	Savelkoul	rsavelkoul@martinsquires.com	Martin & Squires, P.A.	332 Minnesota Street Ste W2750  St. Paul, MN 55101	Electronic Service	No	OFF_SL_15-618_M-15-618
Ken	Smith	ken.smith@districtenergy.com	District Energy St. Paul Inc.	76 W Kellogg Blvd  St. Paul, MN 55102	Electronic Service	No	OFF_SL_15-618_M-15-618
Ron	Spangler, Jr.	rlspangler@otpc.com	Otter Tail Power Company	215 So. Cascade St. PO Box 496 Fergus Falls, MN 565380496	Electronic Service	No	OFF_SL_15-618_M-15-618
Byron E.	Starns	byron.starns@leonard.com	Leonard Street and Deinard	150 South 5th Street Suite 2300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_15-618_M-15-618
James M.	Strommen	jstrommen@kennedy-graven.com	Kennedy & Graven, Chartered	470 U.S. Bank Plaza 200 South Sixth Street Minneapolis, MN 55402	Electronic Service	No	OFF_SL_15-618_M-15-618
Eric	Swanson	eswanson@winthrop.com	Winthrop Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_15-618_M-15-618
SaGonna	Thompson	Regulatory.records@xcelenergy.com	Xcel Energy	414 Nicollet Mall FL 7  Minneapolis, MN 554011993	Electronic Service	No	OFF_SL_15-618_M-15-618
Lisa	Veith	lisa.veith@ci.stpaul.mn.us	City of St. Paul	400 City Hall and Courthouse 15 West Kellogg Blvd. St. Paul, MN 55102	Electronic Service	No	OFF_SL_15-618_M-15-618
Daniel P	Wolf	dan.wolf@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_15-618_M-15-618