



414 Nicollet Mall
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September 24, 2012

—Via Electronic Filing—

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

RE: REPLY COMMENTS
CHANGES IN CONTRACT DEMAND ENTITLEMENTS
DOCKET NO. G002/M-12-862

Dear Dr. Haar:

Northern States Power Company, doing business as Xcel Energy, submits to the Minnesota Public Utilities Commission this Reply to the Comments of the Minnesota Department of Commerce-Division of Energy Resources on our Petition for approval of changes in contract demand entitlements.

Xcel Energy appreciates the Department's review and provides additional information as requested. The Department requests that we include in our reply comments:

- Updated cost information regarding 2012 – 2013 winter season hedging transactions;
- What portions of the revised capacity are expected to be used to meet the needs of Xcel Energy's Minnesota customers; and
- That the costs of that capacity will be charged to customers in Minnesota and North Dakota, corresponding with the cost-causation of the two jurisdictions.

Updated 2012 – 2013 Winter Hedging Cost Information

The winter hedging cost information provided in Attachment 3, Schedule 1 of our August 1, 2012 filing is still up to date. The Company has not entered into any new transactions since June 30, 2012 because our variance for including financial hedging costs in the PGA expired.¹ As explained in our petition to extend the variance², the

¹ Docket No. G002/M-08-46

² Docket No. G002/M-12-519

Company suspended entering into new transactions as of July 1, 2012 until the variance extension is approved.

All transactions are costless collars, so there are no upfront hedging costs for the upcoming winter. Therefore, there are no hedging costs to report at this time. Furthermore, the Company expects no future hedging costs for this winter unless the spot market gas price drops substantially. If the Company does incur actual costs later in the winter, those costs will be reported in the Company's next natural gas AAA and Annual True-up filings.

Capacity for Minnesota Customers

As described in the Petition, Xcel Energy has a total of 38,797 Dth/day of incremental firm interstate transportation service capacity and one supply displacement contract becoming effective during the 2012-2013 heating season. These capacity changes are summarized below:

- An increase of 244 Dth/day (from 4,359 Dth/day to 4,603 Dth/day) of Northern Natural Gas Company (Northern) capacity generally serving the Brainerd, MN area,
- Additional capacity of 15,266 Dth/day of Great Lakes backhaul capacity to transport gas withdrawals from ANR Storage to Carlton, MN, for eventual delivery to customers served off Northern in Minnesota,³
- An increase of 9,000 Dth/day (from 57,500 Dth/day to 66,500 Dth/day) of ANR Pipeline Company (ANR) capacity to be delivered to the Viking Gas Transmission Company (Viking) interconnect at Marshfield, WI, and
- Additional capacity of 14,287 Dth/day of Viking backhaul capacity to transport the ANR gas from Marshfield, WI for delivery generally to Fargo, ND.

The portions of the transportation capacity expected to generally serve Minnesota customers are the 244 Dth/day of Northern capacity delivering to Brainerd, MN and the backhaul capacity on Great Lakes, for a total of 15,510 Dth/day. The Viking and ANR capacity is generally expected to deliver to North Dakota customers in the Fargo, MN area, for a total of 23,287 Dth/day. However, all of this transportation capacity is capable of supporting either state in times of peak demand.

³ As noted in the Department's comments, Xcel Energy will replace this backhaul contract with a displacement contract if gas price changes make displacement service more economical. The Company is negotiating a potential displacement service as described.

Allocation of Capacity Costs between Minnesota and North Dakota

Below is a summary of the cost of recent pipeline capacity changes. The annual cost of these changes is \$1,093,807.

Recent Capacity Changes

<u>Pipeline</u>	<u>Volume</u>	<u>Rate</u>	<u>Months</u>	<u>Annual Cost</u>
Northern Natural Gas	244	\$15.1530	5	\$18,487
	244	\$5.6830	7	\$9,707
				<hr/> \$28,193
Great Lakes Gas Transmission	15,266	\$3.6240	5	\$276,620
ANR Pipeline	9,000	\$5.3660	12	\$579,528
Viking Gas Transmission	14,287	\$4.8871	3	<hr/> \$209,466
Total Annual Cost of Capacity Changes				\$1,093,807
Minnesota Allocation Factor				89.07%
Minnesota Allocation of Costs of Capacity Changes				\$974,254

In this proceeding, and for many years, Xcel Energy used design day forecasted demand jurisdictional factors to allocate costs between Minnesota and North Dakota. The capacity changes described above merely implement a small portion of the contract demand entitlements described in the Petition. These changes do not alter the jurisdictional allocation factors that affect the assignment of costs between Minnesota and North Dakota. Also, as mentioned above, all of this transportation capacity is capable of supporting either state in times of peak demand. For these reasons, the costs are allocated using the established allocation methodology.

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) 330-7529 or paul.lehman@xcelenergy.com if you have any questions regarding this filing.

Sincerely,

/s/

PAUL J. LEHMAN
MANAGER, REGULATORY COMPLIANCE AND FILINGS

c: Service List

CERTIFICATE OF SERVICE

I, SaGonna Thompson, hereby certify that I have this day served copies of the foregoing document on the attached list 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-12-862

Dated this 24th day of September 2012

/s/

SaGonna Thompson
Records Analyst

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