



85 7th Place East, Suite 500, St. Paul, MN 55101-2198
main: 651.296.4026 tty: 651.296.2860 fax: 651.297.7891
www.commerce.state.mn.us

September 1 2009

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

RE: **Supplemental Comments of the Minnesota Office of Energy Security**
Docket No. G002/M-08-1315

Dear Dr. Haar:

Attached are the *Supplemental Comments* of the Minnesota Office of Energy Security (OES) in the following matter:

Petition for Approval of Changes in Contract Demand Entitlements of Northern States Power Company (Xcel or the Company).

On May 1, 2009, the OES filed Comments analyzing the Company's request. The OES recommended withholding approval of the petition and asked Xcel to reply to the following issues:

- The effect of the realignment of customers within demand areas on forecasts and allocations;
- A comparison of actual customer counts to forecasted customer counts for November 2007 – October 2008;
- Cost information enabling comparison of alternatives to the selected changes in supplier reservation fees; and
- Additional information about the return of capacity charges associated with the delayed Fargo lateral project that were included with the November and December 2008 Purchased Gas Adjustment (PGA).

After analyzing the material that Xcel provided in its Reply Comments, the OES recommends that the Commission **approve** Xcel's petition for approval of demand entitlement changes as amended.

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

Sincerely,

/s/ MARLON GRIFFING
Financial Analyst

MG/ja
Attachment



BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA OFFICE OF ENERGY SECURITY

DOCKET NO. G002/M-08-1315

I. BACKGROUND

On October 31, 2008, Xcel filed a petition seeking Minnesota Public Utilities Commission (Commission) approval to allow the Company to implement, through its Purchase Gas Adjustment (PGA), changes in its interstate pipeline transportation, storage entitlements, and other demand-related contracts for the upcoming year. The Company updates these elements annually to ensure that it has access to sufficient capacity to cover the anticipated peak demand of its natural gas customers.

On December 30, 2008, Xcel filed an amendment to its petition, updating information regarding the Fargo lateral project (Project).

On May 1, 2009, the OES filed Comments analyzing the Company's request. The OES examined:

- Xcel's forecasted design-day demand,
- resources for meeting Xcel's design-day demand,
- Xcel's design-day reserve margin,
- changes in Xcel's jurisdictional allocations,
- changes in Xcel's supplier reservation fees,
- Xcel's proposed PGA cost recovery, and
- Xcel's proposal to assign demand costs to interruptible customers.

The OES asked Xcel to reply to the following issues:

- The effect of the realignment of customers within demand areas on forecasts and allocations;

- Actual customer counts compared with forecasted customer counts for November 2007 – October 2008;
- Cost information enabling comparison of alternatives to the selected changes in supplier reservation fees; and
- Additional information about the return of capacity charges associated with the delayed Fargo lateral project that were included with the November and December 2008 PGAs.

On May 15, 2009, Xcel submitted Reply Comments addressing the issues identified by the OES.

II. OES ANALYSIS

The OES reviewed Xcel's original filing and the Company's Reply Comments in analyzing these issues. The OES also had informal telephone conversations with Xcel employees, which were helpful in clarifying the issue of supplier reservation fees.

A. *EFFECT OF REALIGNMENT OF CUSTOMERS WITHIN DEMAND AREAS ON FORECASTS AND ALLOCATIONS*

In its Reply Comments Xcel explained that its realignment of customers meant that it used Fargo Heating Degree Days (HDD) for the Fargo/Grand Forks demand areas in the 2008-2009 design day regression analysis, whereas in the 2007-2008 regression analysis, the Company used Minneapolis/St. Paul HDD for these areas. Xcel demonstrates in Tables 1-4 that if the Company used Fargo HDD in the 2007-2008 design-day regressions for Fargo/Grand Forks demand areas, the design-day allocations and customer counts would have moved in the same direction from year-to-year when compared to the 2008-2009 design-day.

The OES agrees that this information demonstrates that the unusual situation in which customer and usage forecasts moved in opposite directions was caused by using the Minneapolis/St. Paul HDD measure for the Fargo/Grand Forks demand areas in 2007-2008 and the Fargo HDD measure for those areas in 2008-2009. The OES concludes that the Fargo HDD for the Fargo/Grand Forks demand area is a better input for forecasting design-day use and that Xcel has addressed the OES's concern about realignment of customers.

B. *ACTUAL CUSTOMER COUNTS VERSUS FORECASTED CUSTOMER COUNTS*

Xcel states that its 2008 Minnesota customer forecast, prepared in March 2007, included 2 percent growth based on an average annual growth rate of 2 percent over the previous five years. The actual customer additions were much lower than predicted.

Minnesota's growth of housing stock slowed to 0.9 percent in 2007. Xcel says it believes this slowdown in the housing market is the primary reason for reduced customer growth in Minnesota, and is the reason the actual customer counts were lower than forecast. Xcel captured the housing slowdown in the 2009 forecast because the forecast started with the lower actual customer counts, and included a revised growth trend of 1 percent.

Thus, Xcel states, the forecast of 428,852 Minnesota customers in January 2009 is lower than the forecast of 431,503 Minnesota customers in January 2008. On the other hand, the number of actual customers in January 2008 was only 424,591, which was incorporated into the January 2009 forecast.

The OES appreciates the Company's explanation reconciling the differences in forecasted and actual numbers between 2008 and 2009. The OES concludes that Xcel's 2009 forecast is reasonable.

C. ALTERNATIVE SUPPLIER RESERVATION FEES

As requested by the OES, Xcel provided information regarding the amount of supplier reservation fees of alternative services it considered when acquiring new peaking contracts.

The trade-secret information provided by Xcel supports the conclusion that one of two new peaking contracts on the Viking Gas Transmission Company (Viking) pipeline is the lowest cost-alternative. However, the same could not be said for the second arrangement. Nonetheless, the OES clarified in telephone conversations with Xcel that the only alternative submitted for the second case did not meet all of Xcel's needs. Thus, the contract that was executed was the lowest-cost viable alternative.

The OES concludes that Xcel has demonstrated that the supplier reservation fees it contracted for are the lowest-cost arrangements available.

D. RETURN OF CAPACITY CHARGES ASSOCIATED WITH THE DELAYED FARGO LATERAL PROJECT

Xcel provisionally included the cost of the incremental firm Viking capacity in the monthly PGA effective November 1, 2008, the start of the 2008-2009 heating season. The amount collected for the Fargo Lateral project in Minnesota in the November 2008-December 2008 PGAs totaled \$257,280. The project was removed from the PGA thereafter when it was delayed.

Xcel projects that the amount to be returned for the Fargo Lateral project to a typical Minnesota residential customer in the natural gas true-up to be \$0.84. Xcel does not oppose the OES's proposal to include interest in the return of this money to ratepayers, agreeing that it is unusual for a contract to be cancelled during the midseason.

Xcel illustrates that using the same interest calculation methodology the Company has used for other refunds, the interest will be about \$6,400. Due to the small size of the interest amount, Xcel proposes to include the interest credit in their next natural gas true-up (allocated to classes on the demand allocator). The OES concludes that the interest rate calculations are correct and that the plan for returning the capacity charges is reasonable.

III. CONCLUSIONS AND RECOMMENDATIONS

After analyzing Xcel's Reply Comments, the OES concludes that Xcel has satisfactorily addressed the questions that the OES raised about Xcel's proposed changes in its contract demand entitlements. The OES recommends approval of the changes in Xcel's contract demand entitlements.

/ja

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, 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 Office of Energy Security
Supplemental Comments**

Docket No. G002/M-08-1315

Dated this 1st day of **September, 2009**

/s/Sharon Ferguson

Service List Name	First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret
OFF_SL_8-1315_1	Al	Krug		Xcel Energy	414 Nicollet Mall Minneapolis, MN 554011993	Paper Service	No
OFF_SL_8-1315_1	Andrew	Moratzka	apm@mcmlaw.com	Mackall, Crouse and Moore	1400 AT&T Tower 901 Marquette Ave Minneapolis, MN 55402	Paper Service	No
OFF_SL_8-1315_1	Annette	Henkel	mui@mnuutilityinvestors.org	Minnesota Utility Investors	Suite 208 400 Robert St. N. St. Paul, MN 551012002	Paper Service	No
OFF_SL_8-1315_1	Bill	Bullard		South Dakota Public Utilities Commiss	Capitol Building Pierre, SD 575015070	Paper Service	No
OFF_SL_8-1315_1	Bob	Bridges	bob.bridges@versopaper.com	Verso Paper	<p>> 100 East Sartell Street Sartell, MN 56377	Paper Service	No
OFF_SL_8-1315_1	Brian	Elliott		Clean Water Action Alliance	326 Hennepin Ave. E. Minneapolis, MN 55414	Paper Service	No
OFF_SL_8-1315_1	Burl W.	Haar	burl.haar@state.mn.us	MN Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	Yes
OFF_SL_8-1315_1	Catarina	Zuber		Avant Energy Services	Suite 300 200 South Sixth Street Minneapolis, MN 55402	Paper Service	No
OFF_SL_8-1315_1	Chris	Duffrin	chrisd@thenec.org	Neighborhood Energy Connection	624 Selby Avenue St. Paul, MN 55104	Paper Service	No
OFF_SL_8-1315_1	Christopher	Anderson	canderson@allete.com	Minnesota Power	30 West Superior Street Duluth, MN 558022093	Electronic Service	No
OFF_SL_8-1315_1	David W.	Niles		Avant Energy Services	Suite 300 200 South Sixth Street Minneapolis, MN 55402	Paper Service	No

Service List Name	First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret
OFF_SL_8-1315_1	Elizabeth	Goodpaster	bgoodpaster@mncenter.org	MN Center for Environmental Advocacy	Suite 206 26 East Exchange Street St. Paul, MN 551011667	Paper Service	No
OFF_SL_8-1315_1	Gary D.	Satterfield		Marathon Petroleum Company LLC	P.O. Box 3128 Houston, TX 77253	Paper Service	No
OFF_SL_8-1315_1	George	Crocker		North American Water Office	PO Box 174 Lake Elmo, MN 55042	Paper Service	No
OFF_SL_8-1315_1	James J.	Bertrand	james.bertrand@leonard.com	Leonard Street & Deinard	Suite 2300 150 South Fifth Street Minneapolis, MN 55402	Paper Service	No
OFF_SL_8-1315_1	James M.	Strommen	jstrommen@kennedy-graven.com	Kennedy & Graven, Chartered	470 U.S. Bank Plaza 200 South Sixth Street Minneapolis, MN 55402	Paper Service	No
OFF_SL_8-1315_1	James P.	Johnson	james.p.johnson@xcelenergy.com	Xcel Energy	5th Floor 414 Nicollet Mall Minneapolis, MN 554011993	Paper Service	No
OFF_SL_8-1315_1	James R.	Talcott		Northern Natural Gas Company	1111 South 103rd Street Omaha, NE 68124	Paper Service	No
OFF_SL_8-1315_1	Janet	Shaddix Elling	jshaddix@janetshaddix.com	Shaddix And Associates	Ste 122 9100 W Bloomington Frwy Bloomington, MN 55431	Paper Service	No
OFF_SL_8-1315_1	Jeffrey A.	Daugherty	jeffrey-daugherty@centerpointenergy.com	CenterPoint Energy	800 LaSalle Ave Minneapolis, MN 55402	Paper Service	No
OFF_SL_8-1315_1	John	Bailey	bailey@ilsr.org	Institute For Local Self-Reliance	1313 5th St SE Ste 303 Minneapolis, MN 55414	Electronic Service	No
OFF_SL_8-1315_1	John	Lindell	agorud.ecf@state.mn.us	OAG-RUD	900 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	No

Service List Name	First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret
OFF_SL_8-1315_1	John	Moir	N/A	City of Minneapolis	City Hall Rm 301 M 350 South 5th Street Minneapolis, MN 55415-1376	Paper Service	No
OFF_SL_8-1315_1	Joseph V.	Plumbo		Local Union 23, I.B.E.W.	932 Payne Avenue St. Paul, MN 55101	Paper Service	No
OFF_SL_8-1315_1	Julia	Anderson	Julia.Anderson@state.mn.us	MN Office Of The Attorney General	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012131	Electronic Service	No
OFF_SL_8-1315_1	Kathleen D.	Sheehy	kathleen.sheehy@state.mn.us	Office Of Administrative Hearings	PO Box 64620 St. Paul, MN 551640620	Electronic Service	No
OFF_SL_8-1315_1	Keith	Weigel		AARP	Suite 1200 30 E. Seventh Street St. Paul, MN 55101	Paper Service	No
OFF_SL_8-1315_1	Kenneth W.	Smith, P.E.	ken.smith@districtenergy.com	District Energy St. Paul Inc.	76 W Kellogg Blvd St. Paul, MN 55102	Electronic Service	No
OFF_SL_8-1315_1	Leslie	Davis		Earth Protector, Inc.	PO Box 11688 Minneapolis, MN 554110688	Paper Service	No
OFF_SL_8-1315_1	Lisa	Veith		City of St. Paul	400 City Hall and Courthouse 15 West Kellogg Blvd. St. Paul, MN 55102	Paper Service	No
OFF_SL_8-1315_1	Lloyd W.	Grooms	lgrooms@winthrop.com	Winthrop & Weinstine	Suite 3500 225 South Sixth Street Minneapolis, MN 554024629	Paper Service	No
OFF_SL_8-1315_1	Lon M.	Stanton	N/A	Northern Natural Gas Company	1650 W. 82nd Street Suite 1250 Minneapolis, MN 55431	Paper Service	No

Service List Name	First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret
OFF_SL_8-1315_1	Megan	Hertzler	megan.hertzler@xcelenergy.com	Xcel Energy	414 Nicollet Mall 5th Floor Minneapolis, MN 554011993	Paper Service	No
OFF_SL_8-1315_1	Michael	Bradley	bradley@moss-barnett.com	Moss & Barnett	4800 Wells Fargo Center90 South Seventh Street Minneapolis, MN 554024129	Paper Service	No
OFF_SL_8-1315_1	Michael	Franklin	mfranklin@mnchamber.com	Minnesota Chamber Of Commerce	400 Robert Street North Suite 1500 St. Paul, MN 55101	Paper Service	No
OFF_SL_8-1315_1	Michael	Krikava	mkrikava@briggs.com	Briggs And Morgan, P.A.	2200 IDS Center80 South 8th Street Minneapolis, MN 55402	Electronic Service	No
OFF_SL_8-1315_1	Mike	Sarafelean	N/A	Gerdau Ameristeel	4221 W Boy Scout Blvd Tampa, FL 33607	Paper Service	No
OFF_SL_8-1315_1	Paula	Erdmann	N/A	Tri-County Action Programs Inc.	700 W St Germain St St Cloud, MN 56301	Paper Service	No
OFF_SL_8-1315_1	Peter G.	Mikhail	pmikhail@kennedy-graven.com	Kennedy & Graven, Chartered	470 U.S. Bank Plaza 200 South Sixth Street Minneapolis, MN 55402	Paper Service	No
OFF_SL_8-1315_1	Richard	Johnson	johnsonr@moss-barnett.com	Moss & Barnett	4800 Wells Fargo Center90 South Seventh Street Minneapolis, MN 55402	Paper Service	No
OFF_SL_8-1315_1	Richard	Savelkoul	rsavelkoul@felhaber.com	Felhaber, Larson, Fenlon & Vogt, P.A.	Suite 2100444 Cedar Street St. Paul, MN 551012136	Paper Service	No
OFF_SL_8-1315_1	Robert S	Lee	RSL@MCMLAW.COM	Mackall Crouse & Moore Law Offices	1400 AT&T Tower 901 Marquette Avenue Minneapolis, MN 554022859	Paper Service	No

Service List Name	First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret
OFF_SL_8-1315_1	Robert S.	Carney, Jr.			4232 Colfax Ave. S. Minneapolis, MN 55409	Paper Service	No
OFF_SL_8-1315_1	Roger	Boehner	lorenbrft@aol.com		6511 Humboldt Avenue N., #210 Brooklyn Center, MN 55430	Paper Service	No
OFF_SL_8-1315_1	Ron	Elwood		Legal Services Advocacy Project	2324 University Ave Ste 101 St. Paul, MN 55114	Paper Service	No
OFF_SL_8-1315_1	SaGonna	Thompson	sagonna.thompson@xcelenergy.com	Xcel Energy	414 Nicollet Mall FL 7 Minneapolis, MN 554011993	Paper Service	No
OFF_SL_8-1315_1	Sandra	Hofstetter	N/A	MN Chamber of Commerce	1140 Mary Hill Cir. Hartland, WI 53029-8009	Paper Service	No
OFF_SL_8-1315_1	Scott	Scheffer	Scott.K.Scheffer@xcelenergy.com	Xcel Energy	414 Nicollet Ave., 7th Fl. Minneapolis, MN 55401	Paper Service	No
OFF_SL_8-1315_1	Sharon	Ferguson	sharon.ferguson@state.mn.us	MN Department Of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	Yes
OFF_SL_8-1315_1	Tim	Barth		Marathon Petroleum Company	P.O. Box 3128 Houston, TX 77253	Paper Service	No
OFF_SL_8-1315_1	William	Grant	bgrant@iwa.org	Izaak Walton League, Midwest Office	1619 Dayton Ave Ste 202 St. Paul, MN 551046206	Paper Service	No
OFF_SL_8-1315_1	William A.	Blazar	bblazar@mnchamber.com	Minnesota Chamber Of Commerce	Suite 1500 400 Robert Street North St. Paul, MN 55101	Paper Service	No