

Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: October 15, 2015.....*Agenda Item # 4

Company: Northern States Power Company, doing business as Xcel Energy (Xcel)

Docket No. E,G-002/M-15-618
In the Matter of Xcel's Request for an Extension of its Gas Capacity
Utilization Accounting Treatment

Issues: Should the Commission approve a permanent extension of the accounting
treatment for the natural gas capacity utilization plan for Xcel's gas
distribution and electric generation business units?

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Relevant Documents

Xcel – Initial Filing June 24, 2015
Xcel – Reply Comments July 6, 2015
Xcel – Reply Comments to Department Supplemental Response Comments July 22, 2015
Department – Comments August 24, 2015

The attached materials are workpapers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless otherwise noted.

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October 2, 2015

Statement of the Issues

Should the Commission approve a permanent extension of the accounting treatment for the natural gas capacity utilization plan for Xcel's gas distribution and electric generation business units?

Introduction

On June 24, 2015, Northern States Power Company, doing business as Xcel Energy (Xcel), filed a Petition for approval of a permanent extension of the accounting treatment for the natural gas capacity utilization plan for its gas distribution (LDC) and electric generation business units.

On August 24, 2015, the Minnesota Department of Commerce, Division of Energy Resources (Department) recommended that the Commission:

- approve Xcel's natural gas Capacity Utilization Plan as a permanent program
- accept Xcel's agreement to report the two categories of capacity sharing transactions for the Capacity Utilization Plan – those used to not curtail interruptible customers and other transactions that benefit the whole system; 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.

Xcel and the Department described the capacity utilization program as follows

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.¹

For capacity sharing and storage [diversion] transactions, a savings to NSP Gas results in a cost to NSP Generation and vice versa. ...²

The accounting treatment [for this program] 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.³

Staff believes no unresolved issues remain between the parties. Staff generally agrees with the

¹ Xcel, petition, p. 6, and DOC, comments, p. 2

² Xcel, petition, p. 4, and DOC, comments, p. 2

³ Xcel, petition, p. 9, and DOC, comments, p. 3

Department's recommendations, but provides additional discussion and an additional decision alternative for the Commission to consider.

Background

Xcel first requested approval of its proposed accounting treatment for a Natural Gas Capacity Utilization Plan in Docket No. E,G-002/M-09-852. In that docket, in its February 18, 2010 ORDER APPROVING PROGRAM, WITH MODIFICATIONS AND REQUIRING REPORT (09-852 Order), the Commission:

- approved Xcel's natural gas Capacity Utilization Plan as a three year pilot program;
- required that Xcel list each individual transaction in the AAA report, showing quantities and cost, the specific accounting entries and a brief explanation of the transaction;
- stated that [the] Xcel Gas unit is not allowed to obtain additional capacity that would be used so interruptible customers would not have to be curtailed, unless these capacity costs are directly assigned to the interruptible classes; and
- required Xcel to work with Staff and the Department in determining the specific accounting entries for these transaction.

In its 09-852 Order, the Commission also 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.

The approved three-year pilot expired on February 18, 2013. However in its Annual Automatic Adjustment Report, Xcel reported on five program transactions that occurred during the 2013-2014 fiscal year.

On June 24, 2015, the same day that Xcel filed its petition in this docket, the Department commented on the Capacity Utilization Program in the Annual Automatic Adjustment (AAA) reports docket, docket 14-580. Several more rounds of comments were submitted, with Xcel filing its replies in both docket 14-580 and this docket, docket 15-618. The parties deferred to the Commission on the best procedural manner to move this issue forward. In its August 24, 2015 Order⁴ in docket 14-580, the Commission stated:

The Commission will defer consideration of Xcel Energy's Capacity Utilization Program as a permanent program to Docket No. E,G-002/M-15-618. The Commission will, however, grant Xcel an extension of time in which to use the accounting treatment under the Capacity Utilization Program from the date the pilot project ended through the date of a Commission order in Docket No. E,G-002/M-15-618 addressing the extension of the pilot program on a permanent basis.

⁴ ORDER ACCEPTING GAS UTILITIES' ANNUAL AUTOMATIC ADJUSTMENT REPORTS AND 2013-2014 TRUE-UP PROPOSALS AND SETTING FURTHER REQUIREMENTS, Docket No. G-999/AA-14-580

On August 24, 2015, the Department filed its comments in the instant docket.

The Capacity Utilization Plan

Xcel explained that

Due to differing seasonal peaks, NSP Gas or NSP Generation may have available capacity that would be a lower or equivalent cost option for the other business unit to use.

Xcel described the plan as follows:

The Capacity Utilization Plan allows NSP Gas and NSP Generation to use available capacity in each other's portfolios. We believe this improves our natural gas capacity utilization efficiency for pipeline transportation and storage capacity...

1. Capacity Sharing

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...⁵

2. Storage Netting

Our 2009 Capacity Utilization Plan petition noted our intent to consolidate our NNG storage contracts and use NNG's storage netting program. We consolidated our NNG storage contracts in June 2010 and began using storage netting in August 2010. Our NNG storage contracts remain consolidated and we continue to use NNG's storage netting program to the benefit of our customers. 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.

Through NNG's storage netting program, only the net injection or withdrawal resulting from of [SIC] NSP Gas and NSP Electric storage daily activity is assessed an injection/withdrawal fee by NNG. Since we continue to track the

⁵ Xcel provided examples of accounting for capacity sharing and also, to address the concerns about using purchasing capacity so as not to interrupt interruptible service, Xcel proposed to identify capacity sharing transactions executed to avoid curtailing interruptible customer usage and to allocate the costs of those transactions directly to interruptible customers.

separate accounts internally, we offer to continue reporting on the savings our customers enjoy because of our NNG storage contract consolidation.

Please see Xcel's Petition and the Department's comments for a more complete and detailed description of the Company's proposal and the Department's analysis.

Staff Comment

Staff believes this appears to be a reasonable plan, however, staff always has concerns when resources are jointly owned or shared (or netted) that costs are appropriately allocated and assigned and that one group of ratepayers does not benefit at the expense of the other group of ratepayers.

Interstate Pipeline Transportation Capacity

Under the plan, Xcel proposes to account for pipeline capacity transactions, where one unit can use otherwise unused capacity of the other unit, as a capacity release for one unit and a capacity purchase for the other unit. Xcel proposes to continue using the maximum NNG interruptible transportation rate at the time of the transaction as the price at which the firm capacity would be released by one unit and the price at which it would be purchased by the other unit. Xcel accounts for these transactions in a manner similar to the way it accounts for similar transactions with third parties.

Staff believes this proposal and the use of NNG's interruptible transportation rate as a proxy for the value of these transactions was discussed in docket 09-852. Based on the annual reports filed in the AAA reports for this pilot, the accounting for these transactions appears to be working. Staff does not have any concerns at this time about pipeline transportation capacity sharing, or the accounting for such sharing.

Storage Consolidation

Staff has two concerns about Xcel's accounting for the use of storage.

First, Xcel did not provide a very detailed explanation of how it tracks the use of separate storage contracts and accounts internally. Also, staff notes that in docket 09-852 Xcel stated

[T]here are opportunities where there are unutilized withdrawal or injection rights on one system that could be utilized by the other system.

We are proposing to combine the storage accounts according to the FDD Consolidation provisions of NNG's tariff, thus allowing either system full access to the combined withdrawal and injection rights of the consolidated FDD contracts. However, the capacity held by each system will not be commingled per this proposal.

Staff believes that when either system (i.e. NSP-Gas or NSP-Electric) has full access to the

combined rights of the consolidated contracts, it is important to ensure that the unit paying for those rights receives its fair share of the benefits.

And second, as the Department discussed, the one accounting problem noted during the pilot program was a misallocation of approximately \$570,000 of storage demand costs. This one error is greater than Xcel's reported combined savings of both units over the course of the pilot, about \$249,000 for natural gas customers and about \$202,000 for electric customers for a combined total of \$451,000.

Further, in Docket No. G002/M-15-149,⁶ Xcel's request for a PGA rule variance to allow recovery of Kansas Ad Valorem taxes through the PGA, Xcel discovered in preparing its reply comments that the state of Kansas incorrectly included both Xcel's natural retail gas and electric generation quantities in its Kansas tax calculation, which was assessed to Xcel's retail natural gas operations. While Xcel filed a revision in docket 15-149 to remove the amount associated with the electric generation quantities from the amount it proposed to pass through the PGA, this is an example of some of the challenges presented by having consolidated storage accounts and trying to account for them separately.

Staff believes the plan to share capacity and use storage netting (Xcel's Capacity Utilization Plan) should be approved as a permanent program, with the agreed to reporting, as requested by Xcel and recommended by the Department. However, as stated in briefing papers in dockets 15-149 (deliberated on October 1, 2015) and 14-654 (also on today's agenda) staff believes it needs a better understanding of the arrangements in effect between Xcel's business units for the use of its storage contracts, and how Xcel separately accounts for these contracts when they are combined.

The different business units represent different groups of ratepayers. Specifically, staff would like to know if, and how, Xcel ensures that the assignment and allocation of costs and credits reflects how each unit is actually using storage. Therefore, Staff recommends that if the Commission approves Xcel's Capacity Utilization Plan as a permanent program, it direct Xcel to meet with staff and the Department to discuss the arrangements in effect between Xcel's business units for the use of its storage contracts and how it ensures that the assignment and allocation of costs and credits reflects how each unit is actually using the system. (Because Xcel uses its transportation contracts to move gas to and from storage, staff hopes that Xcel also would be open to discussing how Xcel's business units use its transportation and storage contracts.)

⁶ The Commission deliberated on this docket on October 1, 2015.

Decision Alternatives

1. approve Xcel's Capacity Utilization Plan as a permanent program (Xcel, Department); and
2. accept Xcel's agreement to report the two categories of capacity sharing transactions for the Capacity Utilization Plan – those used to not curtail interruptible customers and other transactions that benefit the whole system (Xcel, Department); and
3. 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. (Xcel, Department) or
4. Do not approve Xcel's Capacity Utilization Plan as a permanent program, at this time.

Additional Decision Option

5. Direct Xcel to meet with Commission staff and the Department to discuss the arrangements in effect between Xcel's business units for the use of its transportation and storage contracts and how Xcel ensures that the assignment and allocation of costs and credits reflects how each Xcel business unit is actually using the interstate pipeline transportation capacity and storage.