


## Staff Briefing Papers

Meeting Date	December 7, 2023	Agenda Item 3*
Company	Northern States Power Company	
Docket No.	<b>G-002/MR-23-412</b>	
	<b>In the Matter of the Petition of Northern States Power Company for Approval of a New Base Gas Cost for Interim Rates</b>	
Issues	Should the Commission approve the proposed new base cost of gas?	
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 <b>Relevant Documents</b>	<b>Date</b>
Xcel Energy – Initial Filing	November 1, 2023
Department of Commerce – Comments	November 20, 2023
Xcel Energy – Reply Comments	November 21, 2023

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

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## **I. Statement of the Issues**

Should the Commission approve the proposed new base cost of gas?

## **II. Introduction**

To coincide with the implementation of interim rates in its general rate case filing,<sup>1</sup> Northern States Power Company d/b/a Xcel Energy (Xcel Energy or the Company) filed its petition and requested approval to establish a new base cost of gas (BCOG) and reset the purchased gas adjustment to zero. This miscellaneous filing matches Xcel Energy's proposed interim retail billing rates with the gas costs used to calculate the Company's proposed interim rate revenue. This filing eliminates the purchased gas adjustment (PGA), which represents the difference between Xcel Energy's current base costs approved in Docket No. G-002/GR-21-678, and the new base gas costs used in Xcel Energy's current general rate filing in Docket No. G-002/GR-23-413.

## **III. Background**

On November 1, 2023, Xcel Energy filed a general rate case under Docket No. G-002/GR-23-413. On the same day, Xcel Energy filed a new base cost of gas under Docket G-002/MR-23-412 to coincide with the implementation of interim rates in the general rate case.

On November 20, 2023, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed comments recommending that the Commission approve as modified therein Xcel Energy's Base Cost of Gas filing.

On November 21, 2023, Xcel Energy filed reply comments accepting the Department's recommendations.

## **IV. Relevant Rules**

Minn. Rules Pt. 7829.1300, Miscellaneous Tariff and Price List Filings

Minn. Rules Pt. 7825.2700, Subp. 2, New Base Gas Cost

Minn. Rules Pt. 7825.3200 (B), Miscellaneous Rate Changes

## **V. Parties' Comments**

### **A. Xcel Energy – Initial Filing**

Xcel Energy in its petition proposed recovery of test-year demand gas costs of \$79,684,016 and commodity gas costs of \$270,750,197. Thus, when the proposed demand costs and commodity costs of gas are added together, these result in total gas cost of \$350,434,213.

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<sup>1</sup> Docket No. G-002/GR-23-413.



## **B. Department of Commerce – Comments**

### **1. Demand Cost of Gas**

The Department reviewed Xcel Energy's Petition for consistency with the calculations in the rate case. The Department's analysis indicated that the information is consistent between the rate case and the base cost of gas filing. Xcel Energy calculated its demand cost of gas based on the demand entitlement units filed on November 1, 2022 in Docket No. G-002/M- 22-429 and that were approved by the Commission on November 15, 2023.

The Department noted that the demand costs are based on the interstate pipeline rates of Northern Natural Gas (Northern or NNG), Viking Gas Transmission (VGT), Great Lakes Gas Transmission (GLGT), ANR Storage Company (ANRS) and Williston Basin Interstate Pipeline Transmission (WBI).

The Department noted that the Company has also used the design-day and associated jurisdictional allocations from the Company's most recent information from its demand entitlement filing in Docket No. G-002/M-23-361 (Docket 23-361) filed on August 1, 2023 and supplemented on November 1, 2023.

Finally, in its review of demand costs, the Department found no inconsistencies between the sales forecast reported in the rate case filing and that which was presented in the base cost of gas Petition.

The Department noted that Commission Staff in its August 25, 2017 Briefing Papers on CenterPoint Energy's base cost of gas filing in Docket No. G-008/MR-17-591, stated the following:<sup>2</sup>

Staff points out that commodity gas costs, although recovered dollar for dollar, is a component of total revenue and total revenue is either a component or the "driver" for various test year estimates such as bad debt expense, late payment fees and storage costs. For instance, proposed test year bad debt expense is calculated as 0.96% of firm revenue; therefore, a 10% fluctuation (\$43.645 million) in commodity gas costs would impact bad debt expense by \$419,000.

The Department noted that the Commission has required companies during previous base cost of gas proceedings, to provide updated BCOG information reflecting changes in commodity and demand costs.<sup>3</sup>

Thus, the Department recommended that Xcel Energy provide updated cost of gas information in this proceeding and in its companion general rate case. The Department recommended that the Commission should require Xcel Energy to work with Commission and Department Staff to

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<sup>2</sup> Staff briefing papers are available in eDockets.

<sup>3</sup> See for example, the Commission's December 5, 2017 *Order Setting New Base Cost of Gas for Interim Rate Period* in Docket No. G-011/MR-17-564, September 29, 2017 *Order Setting New Base Cost of Gas* in Docket No. G-008/MR-17-591, and December 18, 2019 *Order Setting New Base Cost of Gas* in Docket No. G-008/MR-19-525, respectively.



determine the appropriate timing for providing this information and whether the update(s) to the information should be applied to Xcel Energy's BCOG and reflected in the accompanying general rate case. The update(s) should be filed in both this docket and in the general rate case.<sup>4</sup> Additionally, when the Company files its final base cost of gas pursuant to Minn. R. pt. 7825.2700, subp. 2, the cost of gas in that filing should equal the cost of gas approved for use in the general rate case.<sup>5</sup>

## **2. Commodity Gas Costs**

The Department noted that Xcel Energy estimated its commodity costs based on "a combination of market indicators such as [New York Mercantile Exchange] NYMEX and various long-term price forecasts published by highly respected, industry-leading sources such as Wood Mackenzie, IHS Markit and S&P Global. The forecast is NYMEX based for the first few years, and then it transitions into blending the NYMEX curve with the three vendor forecasts to develop a composite forecast."<sup>6</sup> The Department compared these estimated commodity cost rates to current NYMEX market expectations and concluded that, currently, the rate estimates are appropriate.

Additionally, the Department stated that, after estimating commodity costs for its customers, Xcel Energy calculated the estimated Weighted Average Cost of Gas (WACOG) for each customer class.<sup>7</sup> Xcel Energy calculated its total gas cost recovery amount by multiplying monthly test-year sales amounts by the monthly projected WACOG price, resulting in no difference.<sup>8</sup> Xcel Energy expects total 2024 commodity costs to be \$270,750,197.<sup>9</sup>

## **3. Total Gas Cost**

The Department noted that there is no discrepancy between the test year total cost of gas of \$350,434,213 (demand cost of \$79,684,016 plus commodity cost of gas of \$270,750,197) and rate case total gas cost of \$350,434,213 and concluded that the total gas costs are acceptable.

## **4. Tariffs**

Xcel Energy provided its proposed updated tariff sheets in both clean and redlined versions as Attachment D to the Petition. The Department reviewed the proposed tariff sheets and concluded that the proposed changes correctly update the base cost of gas values in accordance with the calculations contained in Attachments A through C of the Petition. As a result, both the clean and redlined versions of the tariff sheets are acceptable.

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<sup>4</sup> Docket No. G-002/GR-23-413.

<sup>5</sup> Minn. R. pt. 7825.2700, subp. 2, states in part: "A new base gas cost must also be part of the rate design compliance filing submitted as a result of a general rate proceeding."

<sup>6</sup> Xcel Energy's response to Department IR No. 6 located in Department comments, attachment 1.

<sup>7</sup> Petition Attachment A at 1-3.

<sup>8</sup> See Xcel Energy's rate case filing in Docket 23-413, Direct Testimony of Michelle M. Terwilliger, Exhibit \_\_\_\_ (MMT-1), Schedule 5. The total commodity costs are approximately \$270,750,197 and in the Petition Attachment A they are approximately \$270,750,197 resulting in no difference.

<sup>9</sup> Petition Attachment A at 1-2.



## 5. Department Recommendations

The Department recommended that the Xcel Energy's base cost of gas filing be approved and that Xcel Energy be required to:

- provide updated cost of gas information in this proceeding and in its companion general rate case; and
- work with Commission and Department Staff to determine the appropriate timing for providing this information and whether the update(s) to the information should be applied to Xcel Energy's base cost of gas and reflected in the accompanying general rate case. The update(s) should be filed in both this docket and in the general rate case.

### C. Xcel Energy – Reply Comments

Xcel Energy accepted all the Department's recommendations.

## VI. Staff Analysis

Staff notes that commodity gas cost, although recovered dollar for dollar, is a component of total revenue and total revenue is either a component or the "driver" for various test year estimates such as bad debt expense, late payment fees and storage costs. For instance, a 10% fluctuation to the proposed \$350,434,213 base cost of gas, would impact bad debt expense<sup>10</sup> by \$147,182.<sup>11</sup>

Thus, as recommended by the Department, due to the commodity gas costs' impact on various test year estimates, if the Commission requires Xcel Energy to provide updated cost of gas information throughout this proceeding as a check on the reasonableness of the amount forecasted for the test-year the Company should be instructed to make the filings under both this docket and the general rate case docket.

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<sup>10</sup> Xcel Energy's 2024 Test Year proposed bad debt ratio is 0.42 percent. See Lindgren Direct at 42, Docket No. G-002/GR-23-413.

<sup>11</sup>  $\$350,434,213 \times 10\% \times 0.42\% = \$147,182$ .

## **VII. Decision Alternatives**

### **Base Cost of Gas**

1. Approve Xcel Energy's Base Cost of Gas as filed. [Xcel Energy, Department]
2. Do not approve Xcel Energy's Base Cost of Gas.

### **Updated Commodity Costs**

3. Require Xcel Energy to file updated information on the commodity cost of gas both in this proceeding and in the general rate case in Docket No. G-002/GR-23-413. Direct the Company to work with the Department and Commission Staff to determine the appropriate timing for providing this information and whether this updated information should be applied to Xcel Energy's base cost of gas. [Department, Xcel Energy agreed]
4. Do not require Xcel Energy to provide updated information on the commodity cost of gas.