

## Staff Briefing Papers

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|--------------|--|-----------------|
| Meeting Date | December 8 and 9, 2021   | Agenda Item 3** |
| Company      | Northern States Power Company d/b/a Xcel Energy  |                 |
| Docket No.   | <b>G-002/MR-21-679</b>   |                 |
|              | <b>In the Matter of a Petition by Northern States Power Company for Approval of a New Base Cost of Gas</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, 2021  |
| Department - Comments   | November 10, 2021 |
| Xcel Energy – Reply Comments  | November 15, 2021 |

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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

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, to coincide with the implementation of interim rates in its general rate case filing, Docket No. G-002/GR-21-678. 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-09-1153, and the new base gas costs used in Xcel Energy's current general rate filing in Docket No. G-002/GR-21-678.

## III. Background

On November 1, 2021, Xcel Energy filed a general rate case under Docket No. G-002/GR-21-678. On the same day, Xcel Energy filed a new base cost of gas under Docket G-002/MR-21-679 to coincide with the implementation of interim rates in the general rate case.

On November 10, 2021, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed comments recommending that the Commission approve Xcel Energy's Base Cost of Gas petition with certain conditions.

On November 15, 2021, 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 \$66,581,624 and commodity gas costs of \$253,473,987. Thus, when the proposed demand costs and commodity costs of gas are added together, these result in total gas cost of \$320,055,405.

## B. Department

### 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 indicates that the information is generally consistent between the rate case and the base cost of gas filing with a minor rounding difference.<sup>1</sup> Xcel Energy calculated its demand cost of gas based on the demand entitlement units filed on October 29, 2020 in Docket No. G-002/M- 20-633 and that were approved by the Commission on April 27, 2021.

The Department notes 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-21-589 (Docket 21-589) filed on July 30, 2021 and supplemented on November 1, 2021.

The Company provided a description of the system demand cost calculation on pages 3 through 5 of its Petition.

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 pointed out 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.

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<sup>1</sup> In the Petition, at Attachment B, the total demand costs are approximately \$66,581,624 and in the rate case for example in Direct Testimony of Michelle M. Terwilliger, Exhibit \_\_\_\_ (MMT-1), Schedule 5, the total demand costs embedded in the calculations are approximately \$66,581,441, resulting in a difference of \$184.

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

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 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 Docket 21-678. 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>4</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>5</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>6</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 a minor rounding difference.<sup>7</sup> Xcel Energy expects total 2022 commodity costs to be \$253,473,987.<sup>8</sup>

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<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.

<sup>4</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>5</sup> Xcel Energy's response to Department IR No. 6 located in Department comments attachment 1.

<sup>6</sup> Petition Attachment A at 1-2.

<sup>7</sup> See Xcel Energy's rate case filing in Docket 21-678, Direct Testimony of Michelle M. Terwilliger, Exhibit \_\_\_\_ (MMT-1), Schedule 5. The total commodity costs are approximately \$253,473,964 and in the Petition Attachment A they are approximately \$253,473,987 resulting in a difference of \$23.

<sup>8</sup> Petition Attachment A at 1-2.

### 3. Total Gas Cost

The Department noted that there exists a discrepancy of \$207 that results between the test year total cost of gas of \$ \$320,055,612 (demand cost of \$ \$66,581,624 plus commodity cost of gas of \$ 253,473,987) and rate case total gas cost of \$ 320,055,405. However, the Department indicated the difference as acceptable since it was due to rounding.

### 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.

### 5. Department's Recommendations

The Department recommended that the Commission approve Xcel Energy's base cost of gas filing as modified herein with the following additional recommendations. The Department recommended that the Commission require that Xcel Energy:

- 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 Docket 21-678.

### C. Xcel Energy Reply Comments

Xcel Energy accepted all the Department's recommendations.

## VI. Staff Analysis

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, a 10% fluctuation to the proposed \$320,055,612 base cost of gas, would impact bad debt expense<sup>9</sup> by \$128,022.<sup>10</sup>

Staff notes that the Xcel Energy calculated the 2022 WACOG to be \$3.4060; however, Staff's review of NYMEX daily prices revealed that, since August 25, 2021, natural gas prices have been

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<sup>9</sup> Xcel Energy's proposed bad debt ratio is 0.40 percent.

<sup>10</sup> \$320,055,612 x 10% x 0.40% = \$128,022.

above \$4.00 every day and, since September 24, 2021, there have been only 4 days where the price was below \$5.00.<sup>11</sup> If these trends continue into the test year, it is likely that the actual 2022 WACOG will be higher than forecasted.

Due to the commodity gas costs' impact on various test year estimates, the Commission may want to require 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. To ensure that the record is complete, if the Commission does order these filings, Xcel Energy should be instructed to make the filings under both this docket and the general rate case docket.

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<sup>11</sup> Through November 9, 2021. Source: <https://www.eia.gov/dnav/ng/hist/rngwhhdd.htm>.

## 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 provide updated information on the commodity cost of gas during this proceeding and in the general rate case. 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. The updates shall be filed in both this docket and in the general rate case, Docket No. G-002/GR-21-678. (Staff modifying DOC recommendation)
4. Do not require Xcel Energy to provide updated information on the commodity cost of gas.