

November 7, 2014

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

RE: **Response Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G002/M-14-336

Dear Dr. Haar:

The Minnesota Department of Commerce (Department) respectfully requests that the Minnesota Public Utilities Commission (Commission) accept the Department's Response Comments. These Response Comments are provided to ensure that the Commission has an accurate record.

Pursuant to Minn. Stat. §216B.1635 (*Recovery of Gas Utility Infrastructure Costs*), on August 1, 2014, Northern States Power Company, d/b/a Xcel Energy (Xcel, Xcel Energy, or the Company) filed its Petition for approval of a Gas Utility Infrastructure Cost (GUIC) Rider, on a recurring basis, effective January 1, 2015 and to recover \$14.9 million of costs in 2015 through the Rider.

In its October 16, 2014 Comments, the Department concluded that:

- the pipeline safety program and the sewer conflict program are eligible for the rate Rider described under Minn. Stat. §216B.1635;
- the Company has sufficiently complied with the filing requirements;
- the actual costs included for recovery through the Rider were prudently incurred and the forecasted costs proposed to go into the GUIC Rider are supported by budgeted projects;
- FERC Accounts 182.3 and 254 are appropriate for the true-up of costs in the GUIC tracker;
- a five-year amortization period is reasonable for the deferred costs;
- recovering the 2015 revenue requirements over the remaining months is a reasonable proposal should implementation be delayed beyond January 1, 2015;
- Xcel's proposal to annually file on November 1 its proposed changes to the GUIC factors for the subsequent year is reasonable;
- Xcel's rate design methodology is reasonable;

- the Company's revisions to the tariff sheets are consistent with the Company's GUIC Rider proposals;
- Xcel's customer notice is reasonable;
- Deferred accounting should end in Docket No. G002/M-12-248 (Docket No. 12-248) at the earlier of March 20, 2015 or when recovery begins, and in Docket No. G002/M-10-422 (Docket No. 10-422) when recovery begins, and
- The GUIC Rider should end at the time of Xcel's next general rate case.

Based on its analysis, the Department recommended that the Commission approve Xcel's Gas Utility Infrastructure Cost Rider including:

- a rate of return of 7.56 percent in the GUIC Rider;¹
- a five-year amortization period for the deferred costs;
- Xcel's proposed GUIC Rate adjustment factors² if implemented on January 1, 2015; and
- Xcel's proposed tariff sheets³ if implemented on January 1, 2015.

The Department also recommended that the Commission require:

- that the GUIC Rider recovery end at the time of the Company's next rate case; and
- a compliance filing showing the final rate adjustment factors, and all related tariff changes, 10 days after its Order if implementation of the 2015 GUIC factors occurs after January 1, 2015.

In its October 23, 2014 Reply, Xcel agreed with the Department's recommendations except for ending the GUIC Rider at the time of the Company's next general rate case. Xcel stated that although any projects in service at the time of the rate case would be rolled into base rates, there may still be upcoming projects that would qualify for the GUIC Rider. The Department does not oppose Xcel's exception. In its Petition, Xcel proposed to annually file on November 1 its proposed changes to the GUIC factors for the subsequent year.⁴ Thus, the Commission has the opportunity to end the GUIC Rider on an annual basis. Therefore, the Department withdraws its recommendation to end GUIC Rider recovery at the time of the Company's next rate case.

¹ The Office of the Attorney General – Antitrust and Utilities Division (OAG) agrees that the cost of debt adjustment recommended by the Department and agreed to by Xcel is appropriate and reasonable for this case. However, the OAG recommends a further reduction to the overall cost of capital. For the reasons stated in its Comments, pages 14-15, the Department maintains its original recommendation on the overall rate of return.

² As modified to reflect the reduced GUIC factors for the lower overall rate of return.

³ *Id.*

⁴ Minnesota Statute §216B.1635, subd. 2 states "The report must be for a forecast period of one year."

On October 27, 2014 the OAG filed Reply Comments.⁵ For various reasons, the OAG recommended that the Commission deny the GUIC Rider.

The Department responds to the OAG's statements that the Department conducted an "initial" review⁶ and a more in-depth review would show whether Xcel is deferring normal operation and maintenance (O&M) expenses as gas utility infrastructure (GUI) expenses.⁷ To ensure that the Commission has an accurate record, the Department appreciates the opportunity to describe its analysis, which was far more extensive than an "initial review."

The Department performed a substantive and thorough investigation. As stated in its Comments, the Department's investigation included a thorough review of Xcel's proposals and the GUIC statutory requirements including:

- eligibility for the GUIC Rider recovery;
- the statutory filing requirements; and
- the prudence of the costs incurred.

As noted in its Comments, the Department reviewed a random sample of Transmission Integrity Management Program (TIMP) and Distribution Integrity Management Program (DIMP) deferred cost invoices at the Company's office.⁸ The Department also stated that it reviewed the actual and forecasted capital expenditures related to TIMP and DIMP.⁹ Additionally, the Department reviewed and compared Xcel's annual compliance filings in the deferral dockets¹⁰ and Xcel's April 24, 2014 pre-filing summary to the Petition's projects and deferred costs. From this information, the Department summarized by year the deferred and projected GUIC costs, as shown in Attachment 1 to the Department's Comments. Further, the Department requested additional detail on the accumulated plant balances than was provided in the Petition and provided that detail in Department Attachment 2.¹¹

In addition, although not mentioned in its Comments, the Department obtained Xcel's live GUIC model for review and interviewed multiple Company personnel. The Department's extensive review also included examination of the following proposals:

- GUIC Revenue Requirements and Tracker Recovery Mechanism;
- Rate of Return Used in the Tracker;
- Five-Year Amortization of Deferred Costs;

⁵ The OAG did not file initial Comments.

⁶ OAG Reply, page 4.

⁷ OAG Reply, page 9.

⁸ Department Comments, page 10.

⁹ *Id.*

¹⁰ There were four annual filings in Docket No. 10-422 and two in Docket No. 12-248.

¹¹ Department Comments, page 8.

- Timing of GUIC Factors;
- Future Filings;
- Rate Design and proposed tariff sheets;
- Customer Notice; and
- When Deferred Accounting and Rider Recovery Ends.

The Department also examined whether Xcel is deferring normal O&M expenses as GUI expenses. This review was based on previous work by the Department and decisions by the Commission in prior Xcel proceedings. The level of normal O&M expenses associated with similar projects recovered in Xcel's base rates as determined in its most recent rate case¹² was discussed in the deferred accounting petitions, Docket Nos. 10-422 and 12-248. As a result, the level of normal O&M expenses was known. Specifically, as concluded by the Department's review, and footnoted in its Comments,¹³ the O&M expenses proposed in the GUIC are over and above the \$480,000 of normal O&M expenses allowed in the previous rate case for similar projects.

Further, even though execution of these projects is performed using a combination of Company and contract employees, only the incremental costs associated with the outsourced tools, equipment, and services are deferred.¹⁴ Moreover, Xcel justified its outsourcing to date in stating the following:¹⁵

There are three main aspects of the sewer and gas line conflict remediation program: administrative management, sewer line inspections using specialized equipment and cameras, and excavations in instances where conflicts have been identified. Only the camera inspection aspect of the program is outsourced. At present, the Company has neither the internal expertise nor the equipment available to perform this specialized aspect of the program. By outsourcing the inspections, the Company has spared ratepayers the cost of expensive, specialized equipment, and ensured that those with the expertise are conducting the investigations.

Based on the above discussion, the Department's revised recommendations are as follows: The Department recommends that the Commission approve Xcel's Gas Utility Infrastructure Cost Rider including:

¹² Docket No. G002/GR-09-1153.

¹³ Department Comments, Footnote 17.

¹⁴ Department Comments, page 4.

¹⁵ Xcel's petition, pages 16-17.

- an overall rate of return of 7.56 percent in the GUIC Rider;
- a five-year amortization period for the deferred costs;
- Xcel's proposed GUIC Rate adjustment factors, modified to reflect a reduced overall rate of return;
- Xcel's proposed tariff sheets, modified to reflect a reduced overall rate of return; and
- a compliance filing showing the final rate adjustment factors, and all related tariff changes, 10 days after its Order.

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

Sincerely,

/s/MICHELLE ST. PIERRE
Financial Analyst
Energy Planning & Advocacy

MS/ja
Attachment

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, certified mail, 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 Department of Commerce
Response to Reply Comments**

Docket No. G002/M-14-336

Dated this 7th day of November 2014

/s/Sharon Ferguson

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