Xcel Energy®

414 Nicollet Mall
Minneapolis, Minnesota 55401

PUBLIC DOCUMENT
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January 27, 2016

—Via Electronic Filing—

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101

RE: PETITION
EXTENSION OF RULE VARIANCES TO RECOVER THE COSTS OF FINANCIAL INSTRUMENTS THROUGH THE PURCHASED GAS ADJUSTMENT CLAUSE
DOCKET NO. G002/M-16-___

Dear Mr. Wolf:

Northern States Power Company submits to the Minnesota Public Utilities Commission this Petition for approval of a four-year extension of variances to the Purchased Gas Adjustment rules to allow continued PGA recovery of the cost of certain financial instruments used for the purchase of wholesale natural gas supplies for resale to retail natural gas customers.

Our current variances allow us to enter into hedging transactions through June 30, 2016. If the Commission does not issue an order before the expiration of our current variances, we will suspend our hedging program for the 2016-2017 season until such an order is issued. We anticipate placing some hedges before June 30, 2016, and given current market conditions, we do not expect a suspension of our hedging program would materially impact costs for customers this winter.

Please note that information on gas supplies is designated as Trade Secret on Attachment A to this filing. Pursuant to Minn. Stat. §13.37, trade secret information is defined in part as government data, including a compilation that: 1) was supplied by the affected individual or organization, 2) is subject to efforts by the individual or organization that are reasonable under the circumstances to maintain secrecy, and 3) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use. The information on Attachment A meets this definition for the following reasons:

1. Xcel Energy, the affected organization, is supplying the information.

2. Xcel Energy and Xcel Energy Services Inc. (XES), the service company for the Xcel Energy Inc. utility operating companies, make extensive efforts to maintain the secrecy of this information. This information is not available outside the Company except to other parties involved in contracts and to regulatory agencies under the confidentiality provisions of state or federal law, as evidenced by the non-disclosure provisions in the contracts.

3. The information designated as Trade Secret derives independent economic value, actual or potential, from not being generally known or being readily ascertainable. If suppliers know the timing and volumes at which the Company will be entering into transactions, the market may use this information in a negative way to increase costs to the ratepayers.

We have electronically filed this document with the Minnesota Public Utilities Commission, and copies have been served on the parties on the attached service list.

Please contact me at amy.a.liberkowski@xcelenergy.com or (612) 330-6613 if you have any questions regarding this filing.

SINCERELY,

/s/

AMY A. LIBERKOWSKI
MANAGER, REGULATORY ANALYSIS
REGULATORY AFFAIRS

Enclosures
c: Service List

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TRADE SECRET DATA EXCISED

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	Chair
Nancy Lange	Commissioner
Dan Lipschultz	Commissioner
John Tuma	Commissioner
Betsy Wergin	Commissioner

IN THE MATTER OF THE PETITION OF NORTHERN STATES POWER COMPANY FOR APPROVAL OF AN EXTENSION OF RULE VARIANCES TO RECOVER THE COSTS OF FINANCIAL INSTRUMENTS THROUGH THE PURCHASED GAS ADJUSTMENT CLAUSE

DOCKET NO. G002/M-16-___

PETITION

OVERVIEW

Northern States Power Company, doing business as Xcel Energy, submits to the Minnesota Public Utilities Commission this Petition for approval of a four-year extension of variances to Minn. R. 7825.2400, 7825.2500, and 7825.2700, the Purchased Gas Adjustment rules. Specifically, we request Commission approval to allow the Company to:

- Continue to use financial instruments, such as futures contracts and options, to help reduce the impact of natural gas commodity price volatility for retail gas customers;
- Continue to record the purchase cost of various instruments to FERC Account No. 804 and provide the reports required in Docket Nos. G002/M-01-1336 and G002/M-03-1627;
- Continue to recover the costs of such financial instruments through the PGA, subject to the regulatory oversight of the Department of Commerce and the Commission, and subject to a limit of use of financial instruments to **[TRADE SECRET BEGINS TRADE SECRET ENDS]** of the total annual cost of our firm supply portfolio.

Our Petition is consistent with prior approvals, and therefore similarly meets the standards for granting approval of variances under Minn. Rule 7829.3200 as discussed further below. Even in today's low-priced natural gas market, hedging can be used to minimize the level of potential price/cost volatility. In addition, in light of lower natural gas prices, opportunities may exist to lock in the lower prices for future natural gas purchases, thus providing inexpensive natural gas supplies for our customers. Finally, we anticipate using low-cost or minimal-cost hedging instruments to help minimize the costs of hedging for customers in return for protection from potential sharp increases in natural gas prices. Thus, granting our requested variances would serve the public interest by mitigating price volatility risk for our customers.

Our current variances allow us to enter into hedging transactions through June 30, 2016. If the Commission does not issue an order before the expiration of our current variances, we will suspend our hedging program for the 2016-2017 season until such an order is issued. We anticipate placing some hedges before June 30, 2016, and given current market conditions, we do not expect a suspension of our hedging program would materially impact costs for customers this winter. A copy of our 2016-2017 hedging plan is included as Attachment A.

I. SUMMARY OF FILING

Pursuant to Minn. R. 7829.1300, subp. 1, a one-paragraph summary of the filing accompanies this Petition.

II. SERVICE ON OTHER PARTIES

Pursuant to Minn. R. 7829.1300, subp. 2, Xcel Energy has served a copy of this Petition on the Office of the Attorney General – Antitrust and Utilities Division. A summary of the filing has been served on all parties on Xcel Energy's miscellaneous gas service list.

III. GENERAL FILING INFORMATION

Pursuant to Minn. R. 7829.1300, subp. 3, Xcel Energy provides the following required information.

A. Name, Address, and Telephone Number of Utility

Northern States Power Company doing business as:
Xcel Energy
414 Nicollet Mall
Minneapolis, MN 55401
(612) 330-5500

B. Name, Address, and Telephone Number of Utility Attorney

Alison C. Archer
Assistant General Counsel
Xcel Energy
414 Nicollet Mall, 5th Floor
Minneapolis, MN 55401
(612) 215-4662

C. Date of Filing

The date of the filing is January 27, 2016. Should the Commission not issue an order before the expiration of the current rule variances on June 30, 2016, the Company will suspend its hedging program for the 2016-2017 heating season until such an order is issued.

D. Statute Controlling Schedule for Processing the Filing

No statute controls the schedule for processing this filing. Under Minn. R. 7829.0100, subp. 11, the requested variances fall within the definition of a miscellaneous tariff filing, since no determination of Xcel Energy's general revenue requirement is necessary. Under Minn. R. 7829.1400, initial comments on a miscellaneous filing are due within 30 days of filing, with reply comments due 10 days thereafter.

E. Utility Employee Responsible for Filing

Amy A. Liberkowski
Manager, Regulatory Analysis
Xcel Energy
414 Nicollet Mall, 7th Floor
Minneapolis, MN 55401
(612) 330-6613

IV. MISCELLANEOUS INFORMATION

Pursuant to Minn. R. 7829.0700, Xcel Energy requests that the following persons be placed on the Commission's official service list for this matter:

Alison C. Archer	SaGonna Thompson
Assistant General Counsel	Regulatory Administrator
Xcel Energy	Xcel Energy
414 Nicollet Mall, 5th Floor	414 Nicollet Mall, 7th Floor
Minneapolis, MN 55401	Minneapolis, MN 55401
alison.c.archer@xcelenergy.com	regulatory.records@xcelenergy.com

Any information requests in this proceeding should be submitted to Ms. Thompson.

V. DESCRIPTION AND PURPOSE OF FILING

A. Background

The Commission has previously granted the Company variances to the PGA Rules in three dockets: Docket Nos. G002/M-01-1336, G002/M-03-1627, G002/M-08-46, and G002/M-12-519. Through these proceedings, in addition to granting authorization for the Company to recover through the PGA the costs of financial instruments to manage price risks in natural gas supply costs, the Commission:

- Authorized an annual hedging cost cap.
- Required reporting requirements in the Company's monthly PGA, Demand Entitlement, and Annual Automatic Adjustment of Charges filings.
- Required the Company to provide the actual final (settled) cost of financial instruments in required reports and to use the actual settled cost to determine the gain or loss on financial instruments.

This Petition is consistent with prior approvals and includes continuation of all prior reporting requirements.

B. Specific Request

In this Petition, we seek Commission approval of variances to the PGA Rules that will allow the Company to:

- Continue our use of financial instruments to mitigate gas price volatility risk;
- Recover such costs through the PGA subject to an annual hedging cost cap of **[TRADE SECRET BEGINS TRADE SECRET ENDS]**;
- Continue recording the purchase cost of various instruments to FERC Account No. 804; and
- Continue to provide the reports required in Docket Nos. G002/M-01-1336 and G002/M-03-1627.

Consistent with the Commission's extension of the variances in Docket No. G002/M-12-519, we believe a four-year variance extension, through June 30, 2020, is warranted. If the Commission or Company determines at some point during the extension period that the PGA rule variance for financial instrument cost recovery is resulting in excessive costs to ratepayers, the Commission could prospectively terminate the variance prior to the expiration date.

1. *Mix of Financial Instruments*

We believe using a mix of financial instruments improves the effectiveness of our efforts to minimize the impact of price volatility on customers. Specifically, we are requesting permission to be a purchaser of Call Options and to utilize Costless Collars in combination with the purchase of a put option, all of which are outlined below:

A Fixed for Float contract allows Xcel Energy to "fix" a price for delivery in a future month. The benefit of using a Fixed for Float contract is price assurance with no premium payment. In this type of instrument, we agree to pay a "fixed" price, and the seller agrees to pay a "floating" price; in the event that the "fixed" price is above the "floating" price, the Company will be required to pay the difference, but purchase the gas at the lower, floating price. In the event the "fixed" price is below the "floating" price the Company will be receive the difference, however it will have to purchase the gas at the higher, floating price. In either case the net impact to customers will be equivalent to purchasing the gas at the fixed price agreed to in the swap.

A Call Option gives the purchaser the right to buy natural gas at a pre-specified price, but requires the purchaser to pay a premium for that right. The benefit of using a Call Option is it allows Xcel Energy to cap the price that is paid at the strike price plus the premium, and if prices settle below the strike price, the only cost associated with providing this protection to our customers is the premium paid.

A Costless Collar is a financial instrument where Xcel Energy would lock in a price cap and in exchange agree to a price floor. This type of instrument has no premium cost. In the event that the actual market price is below the floor price, Xcel Energy would be required to pay the difference between the floor price and the market price. However, in the event the actual market price is above the price cap, Xcel Energy would receive the difference between the market price and the price cap. The benefit of using a Costless Collar is that customers receive the protection of a "price cap" on the price of gas without paying an upfront premium. In order to manage the settlement cost exposure if market prices were to fall below the floor price, Xcel Energy may purchase an "out of the money" put option to help manage the cost not to exceed the budget amount of **[TRADE SECRET BEGINS TRADE SECRET ENDS]**.

Each of these instruments has benefits and costs associated with them, and market conditions will help determine which product is most appropriate to be used within the structure of the hedge program. Attachment B to this Petition provides illustrative examples of how the Company would use these financial instruments to benefit retail customers.

Each of these instruments has benefits and costs associated with them, and market conditions will help determine which product is most appropriate to be used within the structure of the hedge program. Attachment B to this Petition provides illustrative examples of how the Company would use these financial instruments to benefit retail customers.

2. Hedging Cap

The Company proposes Annual Gas Hedging Budget for NSP gas sales customers shall be **[TRADE SECRET BEGINS TRADE SECRET ENDS]**. The Annual Gas Hedging Budget is based on the Northern Natural Gas Ventura (NNG) At-the-Money call option premium for November 2016 through March 2017 of **[TRADE SECRET BEGINS TRADE SECRET ENDS]** per MMBtu times the proposed financial hedge quantity of 13.68 Bcf (discussed below). The Ventura November 2016 through March 2017 At-the-Money call option premium was determined by the lowest of three third-party quotes received by NSP on January 19, 2016.

We believe the proposed cap will be adequate for the Company to continue to provide customers with a hedge that covers approximately 50 percent of their winter commodity gas supply requirements.

C. Customer Benefits

1. Hedging Benefits

The goal of the Company's hedging strategy is to mitigate sharp increases in natural gas prices. The Company acknowledges the final result of our hedging efforts may be higher than purchasing all gas supply in the monthly or daily spot market. However, as has been determined in previous dockets, incurring hedging losses is not necessarily a detriment to customers as the main purpose of hedging is to provide an insurance against catastrophic price increases that affect natural gas customer rates.[1] The goal of mitigating sharp increases in natural gas prices is constant regardless of whether the starting point for natural gas prices is higher, as we experienced in 2007 or 2008, or lower, which we expect to experience for 2016.

In addition, while natural gas prices are at low levels currently, events could occur to cause increases in prices in a relatively short period of time. For example, with sustained low gas prices, commercial and industrial gas usage will likely increase. In addition,

[1] See Docket No. G999/AA-10-885, Staff Briefing Papers at page 29.

ongoing environmental pressure on coal-fired electric generation is prompting many utilities to curtail generation at coal plants and increase gas-fired generation.[2] Both of these would serve to increase demand for natural gas. At the same time, environmental concerns have been raised regarding shale gas exploration, and in particular, induced hydraulic fracking, which is used to release natural gas for extraction. Thus, it is unclear how shale gas exploration may be impacted, and whether natural gas production could be reduced as a result. For these reasons, Xcel Energy continues to believe it is prudent to continue guarding against unexpected market surges in natural gas prices.

2. *Low-Cost or Minimal-Cost Hedging Instruments*

We recognize that in periods when gas prices are expected to be lower, there may be less willingness to incur hedging losses in exchange for greater price certainty. Although we considered higher levels of protection, we continue to recommend hedging 50 percent of our winter requirements to provide a balance between cost and benefits. We also recommend using low or minimal cost financial instruments. An example of a low-cost financial instrument is a costless collar. With a costless collar, the floor price of the collar can be set low enough to ensure that customers can participate in falling prices without paying an upfront premium that a call option would require, in exchange for assuming a limited amount of upside price risk. Costless collars may be more attractive in these market conditions as the skew[3] between the floor and the ceiling has been reduced. Using costless collars will limit the possibility of hedge losses while still providing a certain measure of upside price protection.

In addition to using low-cost cost hedging instruments, our proposed spending cap of **[TRADE SECRET BEGINS TRADE SECRET ENDS]** on financial transactions is lower than the previous cap. The cap is based on quotes for call option premiums received just prior to this filing which indicate lower overall hedging costs compared to prior years when commodity prices were higher. Thus overall, we anticipate this approach will result in lower costs for hedging.

[2] The Company has seen this trend growing in the utility industry.

[3] "Skew" is the difference between how far out of the money the call strike price is as compared to how far out of the money the put strike price is in a costless collar. For example if the current market price is $2.00 and a costless collar has a $3.00 cap (call strike price) and a $1.50 floor (put strike price) the "skew" would be 2 to 1 since the call option strike is twice as far out of the money as the put strike price.

3. Longer-Term Hedging Options

The natural gas market has been evolving quickly over a relatively short period of time. While previously it would have been difficult for the Company to enter into a long-term contract for natural gas, more recently, the longer-duration transactions have become more feasible. In particular, five-year contracts for natural gas, with price protection, have become more common. Thus, in light of current market conditions, the Company may be in a position to "lock-in" a price for future natural gas, which, in addition to providing greater price certainty, would also protect against future increases in natural gas prices.

Accordingly, we will consider and evaluate two to five-year hedging opportunities for our customers. In the event that the Company identifies a longer term hedging opportunity, the Company will make a separate filing requesting approval of such opportunity in a separate docket.

D. Request for Variance

Implementing our hedging program requires Commission approval of variances from three Commission rules governing the PGA. These rules are:

- Minn. R. 7825.2700 and 7825.2910, subp. 1, which permit natural gas utilities to make filings to adjust retail rates on a monthly basis to reflect changes in the delivered cost of the commodity natural gas, pipeline and contract storage capacity, and peak-shaving supplies purchased for resale.

- Minn. R. 7825.2500(B), which permits an automatic adjustment of charges for "changes in the cost of commodity-delivered gas cost and demand-delivered gas cost for purchased gas."

- Minn. R. 7825.2400, subp. 12, which defines the cost of purchased gas as the cost of gas defined by the Minnesota uniform system of accounts, including specific accounts set forth by the Federal Energy Regulatory Commission (FERC); and defines "demand delivered gas cost" as the portion of the cost of purchased gas "other than the commodity-delivered gas costs," including "associated costs incurred to deliver the gas to the utility's distribution system."

Minn. R. 7829.3200 provides that the Commission may grant a variance to its rules if it finds that:

1. *enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule;*

2. *granting the variance would not adversely affect the public interest; and*

3. *granting the variance would not conflict with standards imposed by law.*

In support of our variance request, we provide the following information.

1. Excessive Burden Standard

We have described how the use of financial instruments can be used for the benefit of retail natural gas customers. The requested extension of variances will continue to facilitate our use of financial instruments, allowing us to execute transactions that will benefit customers by mitigating natural gas commodity price volatility risk. Without use of such tools, we believe customers could be burdened by the potentially higher prices and also have greater exposure to wholesale natural gas market volatility. By granting the extension of variances to allow for PGA recovery of these costs, subject to on-going regulatory oversight, we have the ability to more efficiently hedge customers' existing price risk, thereby reducing customer concerns about retail rate volatility.

The Commission's PGA Rules were drafted at a time when use of financial instruments in natural gas commodity purchasing by local distribution companies was not anticipated; thus, cost recovery of such instruments was not addressed. We believe that continued use of financial instruments provides a benefit to retail gas customers through less volatile wholesale commodity gas costs, resulting in less volatile retail gas rates.

b. Public Interest Standard

The public interest would not be adversely affected by granting the requested extension of variances. As the Commission determined in Docket Nos. G002/M-01-1336, G002/M-03-1627, G002/M-08-46 and G002/M-12-519, the limited scope of the financial hedging transactions and the ongoing Department and Commission oversight appropriately protect consumers. The reduced retail rate volatility that can result from use of financial instruments will benefit customers, particularly during periods of high price volatility. Ongoing regulatory oversight of the variance request will assure consistency with a risk minimization strategy.

c. No Conflict with Other Standards Imposed By Law

Since the Commission has previously granted the rule variances in Docket Nos. G002/M-01-1336, G002/M-03-1627, G002/M-08-46, and G002/M-12-519, and has granted similar PGA rule variances to other Minnesota gas utilities, it has previously been determined that a variance to the PGA rules does not conflict with standards imposed by law. As such, the extension should be granted.

VI. EFFECT ON XCEL ENERGY REVENUE

The extension would allow recovery of the costs of financial instruments from Xcel Energy's retail natural customers pursuant to the PGA and annual PGA true-up. The additional revenue would be offset by the costs of the financial instruments and have no net change on the Company's earnings.

CONCLUSION

The Company respectfully requests that the Commission approve a four-year extension of variances to the Purchased Gas Adjustment rules. In addition, we request Commission approval to allow the Company to:

- Continue to use financial instruments such as futures contracts and options, to help reduce the impact of natural gas commodity price volatility for retail gas customers;
- Continue to record the purchase cost of various instruments to FERC Account No. 804, and provide the reports required in Docket Nos. G002/M-01-1336 and G002/M-03-1627;
- Continue to recover the costs of such financial instruments through the Purchased Gas Adjustment, subject to the regulatory oversight of the Department of Commerce and the Commission, and subject to a limit of use of financial instruments to **[TRADE SECRET BEGINS TRADE SECRET ENDS]** of the total annual cost of our firm supply portfolio.

Dated: January 27, 2016

Northern States Power Company

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	Chair
Nancy Lange	Commissioner
Dan Lipschultz	Commissioner
John Tuma	Commissioner
Betsy Wergin	Commissioner

IN THE MATTER OF THE PETITION OF NORTHERN STATES POWER COMPANY FOR APPROVAL OF AN EXTENSION OF RULE VARIANCES TO RECOVER THE COSTS OF FINANCIAL INSTRUMENTS THROUGH THE PURCHASED GAS ADJUSTMENT CLAUSE

DOCKET NO. G002/M-16-___

PETITION

SUMMARY OF FILING

Please take notice that on January 27, 2016, Northern States Power Company, doing business as Xcel Energy, submitted to the Minnesota Public Utilities Commission a Petition for approval of an extension of the variances granted in Docket No. G002/M-12-519 to the Commission's Purchased Gas Adjustment Rules (Minn. R., Parts 7825.2400, 7825.2500, and 7825.2700), to allow continued PGA recovery of the cost of certain financial instruments used for the purchase of wholesale natural gas supplies for resale to retail natural gas customers. The Company requests variance extensions for four years through June 30, 2020.

2015-2016 Gas Price Volatility Mitigation Plan
Northern States Power Company-Minnesota (LDC)
December 2015
Current and Forward Market Outlook

The winter of 2014-2015 brought a welcomed return to normal temperatures from the harsh winter weather of the previous year. The 2014-2015 winter heating demand had marginal impact on prices compared to the winter of 2013-2014, as weather ranged from normal to above normal in the West, and slightly below-normal in the eastern half of the United States. Normal temperatures continued throughout the summer of 2015 while natural gas production continued to expand, out pacing growing demand from power producers. Most of that production headed into storage during the summer of 2015 pressuring gas prices to historical lows. Gas prices in early April 2015 were trading near $2.60 and continued to slide into the fall, reaching a low settlement of $2.033 at the end of October.

The injection season of 2015 continued past the traditional close on October 31, due to extremely mild weather across the country and year-over-year growth in natural gas production. Storage inventories were at record levels early in the month of November, surpassing the 4,000 Bcf threshold for the first time ever the week of November 13. The “super el nino” of 2015 in the Pacific Ocean has continued to create extremely mild winter temperatures across most of North America and has served to exacerbate the storage overhang. Working gas in underground storage as of Friday, December 11, 2015 was 3,846 Bcf, according to EIA estimates. This represents a net withdrawal of only 34 Bcf from the previous week leaving total underground storage 541 Bcf higher than last year at this time and 322 Bcf above the five-year average of 3,524 Bcf. These record storage inventories and mild temperatures have driven prices down to the lowest levels since the winter of 1998-1999.

According to the EIA, the outlook for the North American natural gas market heading into 2016 will continue to be characterized by uncertainty regarding natural gas supply and demand balances as we have seen in recent history. EIA expects natural gas prices will remain under pressure for calendar year 2016 as expectations of continued warm winter weather and ongoing production growth combine to leave high levels of gas in storage at the start of spring 2016 reducing demand for storage re-fill during the summer injection season.

However, sustained lower prices during 2015 have impacted capital expenditures for new drilling activities. As a result, the Energy Information Administration (EIA) reports that production has been declining since July of 2015. This reduction in supply will be met with expectations for demand growth in the areas of increased exports and electric power generation, tightening the current supply/demand balance, which could shift prices higher toward the end of 2016.

Additional uncertainties exist as to whether, or to what extent, the Environmental Protection Agency (EPA) may impose new regulations affecting the natural gas supply or demand landscape. The EIA’s Clean Power Plan was finalized in August of this year, yet final impacts of this regulation are not yet known. At the same time, further restrictions on hydraulic fracturing from States or the Federal government could further reduce domestic natural gas supplies. Natural gas prices will also be dependent on forward market prices for crude oil as low oil prices could reduce natural gas production growth, since a large amount of natural gas is a by-product of oil well production.

All of these uncertainties underscore the need for continued gas price volatility mitigation efforts by the Company as set forth in this Gas Price Volatility Mitigation Plan (GPVM) for the Gas Department.

Definition of Volatility

This plan is titled “Gas Price Volatility Mitigation Plan”, however it should be noted that the academic definition of the word volatility is not being used in the title or throughout this document. For purposes of this document, the “volatility” that the plan is mitigating against is sharp upward price movement only. It is assumed in this document that downward price “volatility” is considered beneficial to the ratepayers and therefore the plan does not specifically attempt to mitigate downward price volatility.

Price Volatility Mitigation Goals

The overall goal of the Company’s Price Volatility Mitigation Plan is to reduce the exposure to and the magnitude of gas price spikes at a reasonable cost to Northern States Power Company – Minnesota’s (NSPM) customers. The goal of the plan is not to attempt to outguess the market or to speculate on the future direction of energy prices. In the development and implementation of the plan, the Company realizes that the final result of the Company’s efforts may be higher prices than purchasing all gas supply on the monthly spot market. However, the Company maintains that price volatility mitigation is important to protect the Company and its customers from the risk of paying very high gas prices due to unforeseeable market conditions or events.

The targeted hedge volume for NSPM’s gas portfolio is approximately 50% normal requirements for the months of November 2016 through March 2017. The Company will use storage to hedge approximately 25.5% of the normal winter requirements and financial instruments to hedge the remaining 24.5%. Due to the limited amount of gas used in the summertime by the LDC customers, no summer volumes have been included in the seasonal hedging plan.

Budget

The proposed Annual Gas Hedging Budget for NSP gas sales customers shall be **[TRADE SECRET BEGINS TRADE SECRET ENDS]**. The Annual Gas Hedging Budget is based on the Northern Natural Gas Ventura (NNG) At-the-Money call option premium for November 2016 through March 2017 of **[TRADE SECRET BEGINS TRADE SECRET ENDS]** per MMBtu times the proposed financial hedge quantity of 13.68 Bcf (discussed below). The Ventura November 2016 through March 2017 At-the-Money call option premium was determined by the lowest of three third-party quotes received by NSP on January 19, 2016.

Price Volatility Mitigation Long-Term Strategy

The ability to export natural gas, the potential increase in gas fired generation and future economic conditions create uncertainty and the potential for fundamental market changes leading to long term price increases. Therefore the Company proposes to make a separate filing requesting approval of hedges beyond the upcoming winter season in a separate docket when it identifies such long-term (two to five years) hedging opportunities

The long-term price volatility mitigation strategy will focus on a time horizon of two to five years. This time horizon and corresponding strategy will allow customers to avoid a portion of the price risk related to significant increases in gas prices that may last for longer periods of time. The utilization of a long-term strategy will allow the Company to mitigate the effects of this type of price risk while allowing the seasonal strategy to mitigate the effects of the shorter-term, peak demand month price spikes.

Note: The settlement costs of any hedges entered into as part of the long-term plan will be counted against the annual budget for the heating season in which the hedges are settled.

Price Volatility Mitigation Seasonal Strategy

The purpose of the seasonal component of the strategy is to reduce the potential risk of short-term upsets in the wholesale gas markets and the resulting gas price spikes. The seasonal strategy will allow for gas prices to be hedged between the months of April 2016 through October 2016. This timeframe allows the Company to analyze market data regarding production trends, demand trends and storage inventory levels in making its hedging decisions. The seasonal nature of the strategy is intended to provide a desired level of price risk protection while maintaining a balance between market premiums and overall plan costs.

The overall hedge volumes and monthly volumes to be hedged are identified on the monthly volume schedule (Schedule PVM-1) of this document. To allow for a more cost-effective approach to the hedging activity, the targeted volume may be modified for any month to allow a more even volume to be hedged. A minimum monthly hedge volume of three contracts with a volume of no less than 5,000 MMBtu per day will be executed per month. Schedule PVM-1 incorporates a dollar cost averaging approach where the Company will layer in the volume over the planned implementation period. The layering approach spreads the timing risks of the hedging decision over the full plan horizon and ensures that the Company will not enter into all or a very large percentage of the hedged volume at the peak of the market.

The Company will use a mix of fixed for float swaps, call options, costless collars, and put options to implement the financial component of the hedge plan. The **[TRADE SECRET BEGINS TRADE SECRET ENDS]** budget for financial instruments will be managed by adjusting the strike prices of both the call and put options to ensure that settlement costs do not exceed the budgeted amount.

Implementation Strategy

In implementing the Company's Price Volatility Mitigation Plan, the Company will use its best judgment to select the days to complete the hedging activity. On the selected day(s) the Company will complete the hedging transaction as identified in the Volume Schedule. In order to provide flexibility to deal with the timing of weather events at the beginning or end of a month, the Company may hedge the monthly volumes ten days before and ten days after the original targeted month.

Adjustment as a result of Counterparty Default

In the event that counterparty defaults on a hedged transaction, NSPM will apply the following guidelines in determining whether to leave the position open or to replace the position:

a) If the Company, as the result of a default by the counterparty, is required to pay the counterparty to settle a fixed-for-float swap or costless collar, the Company will replace the defaulted position with a new fixed-for-float swap for the same period and in the same quantity of the defaulted position.

b) If the Company, as the result of a default by the counterparty, receives none or only a portion of the positive benefit that would be due as a result of a positive mark on the defaulted hedged position, the Company will replace the hedge with the appropriate instrument for the current price level, provided that it has budget dollars available under the hedge plan. If no hedging dollars are available, the position will be left un-hedged. The available hedging dollars will be the difference between the approved budget for that particular Gas Purchase Year, less any option premiums paid in implementing that year's seasonal hedging strategy.

Conclusion

In conclusion, the overall goal of the program is to reduce the exposure to and magnitude of upward gas prices fluctuations for the 2016-17 heating season at a reasonable cost to NSPM's customers. To accomplish this, the Company is implementing a strategy that will protect approximately 50% of the winter requirements from significant exposure to gas price fluctuations. Also, in order to keep hedging costs within the maximum hedging budget for Northern States Power of **[TRADE SECRET BEGINS TRADE SECRET ENDS]**, a mix of hedging instrument including fixed for float swaps, costless collars, put options and call options will be utilized.

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TRADE SECRET DATA EXCISED

2016-2017 Hedge Budget (Dth)

	Volume Requirements	Storage	Hedge Plan	Total Vol Hedged	% Hedged
June	2,444,949				
July	1,998,483				
August	2,098,177				
September	2,328,791				
October	4,460,579				
November	8,848,893	867,833	2,700,000	3,567,833	40.32%
December	12,665,350	2,578,686	2,790,000	5,368,686	42.39%
January	14,384,580	5,073,564	2,790,000	7,863,564	54.67%
February	11,969,380	3,883,101	2,610,000	6,493,101	54.25%
March	10,159,772	1,782,383	2,790,000	4,572,383	45.00%
April	6,029,975				
May	3,940,129				
	81,329,058	14,185,567	13,680,000	27,865,567	48.02%
Winter Totals	**58,027,975**	**24.45%**	**23.57%**	**48.02%**	

Monthly Volumes (Seasonal Hedges)

	November	December	January	February	March	Total
	[TRADE SECRET BEGINS					
April						
May						
June						
July						
August						
September						
October						
Total						13,680,000
				TRADE SECRET ENDS]		

Dth/Day (Seasonal Hedges)

	November	December	January	February	March
	[TRADE SECRET BEGINS				
April					
May					
June					
July					
August					
September					
October					
				TRADE SECRET ENDS]	

CERTIFICATE OF SERVICE

I, Jim Erickson, hereby certify that I have this day served copies or summaries of the foregoing document on the attached list of persons.

xx by depositing a true and correct copy thereof, properly enveloped with postage paid in the United States Mail at Minneapolis, Minnesota

xx electronic filing

XCEL ENERGY'S MISCELLANEOUS GAS SERVICE LIST

Dated this 27th day of January 2016

/s/

____

Jim Erickson
Regulatory Administrator

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	No	GEN_SL_Northern States Power Company dba Xcel Energy-Gas_Xcel Miscl Gas
Jeffrey A.	Daugherty	jeffrey.daugherty@centerpointenergy.com	CenterPoint Energy	800 LaSalle Ave Minneapolis, MN 55402	Electronic Service	No	GEN_SL_Northern States Power Company dba Xcel Energy-Gas_Xcel Miscl Gas
Ian	Dobson	ian.dobson@ag.state.mn.us	Office of the Attorney General-RUD	Antitrust and Utilities Division 445 Minnesota Street, 1400 BRM Tower St. Paul, MN 55101	Electronic Service	No	GEN_SL_Northern States Power Company dba Xcel Energy-Gas_Xcel Miscl Gas
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	No	GEN_SL_Northern States Power Company dba Xcel Energy-Gas_Xcel Miscl Gas
Todd J.	Guerrero	todd.guerrero@kutakrock.com	Kutak Rock LLP	Suite 1750 220 South Sixth Street Minneapolis, MN 554021425	Electronic Service	No	GEN_SL_Northern States Power Company dba Xcel Energy-Gas_Xcel Miscl Gas
Sandra	Hofstetter	N/A	MN Chamber of Commerce	7261 County Road H Fremont, WI 54940-9317	Paper Service	No	GEN_SL_Northern States Power Company dba Xcel Energy-Gas_Xcel Miscl Gas
Michael	Hoppe	il23@mtn.org	Local Union 23, I.B.E.W.	932 Payne Avenue St. Paul, MN 55130	Electronic Service	No	GEN_SL_Northern States Power Company dba Xcel Energy-Gas_Xcel Miscl Gas
Richard	Johnson	Rick.Johnson@lawmoss.com	Moss & Barnett	150 S. 5th Street Suite 1200 Minneapolis, MN 55402	Electronic Service	No	GEN_SL_Northern States Power Company dba Xcel Energy-Gas_Xcel Miscl Gas
Michael	Krikava	mkrikava@briggs.com	Briggs And Morgan, P.A.	2200 IDS Center 80 S 8th St Minneapolis, MN 55402	Electronic Service	No	GEN_SL_Northern States Power Company dba Xcel Energy-Gas_Xcel Miscl Gas
John	Lindell	agorud.ecf@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	No	GEN_SL_Northern States Power Company dba Xcel Energy-Gas_Xcel Miscl Gas

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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David W.	Niles	david.niles@avantenergy.com	Minnesota Municipal Power Agency	Suite 300 200 South Sixth Street Minneapolis, MN 55402	Electronic Service	No	GEN_SL_Northern States Power Company dba Xcel Energy-Gas_Xcel Miscl Gas
SaGonna	Thompson	Regulatory.records@xcelenergy.com	Xcel Energy	414 Nicollet Mall FL 7 Minneapolis, MN 554011993	Electronic Service	No	GEN_SL_Northern States Power Company dba Xcel Energy-Gas_Xcel Miscl Gas
Daniel P	Wolf	dan.wolf@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 551012147	Electronic Service	No	GEN_SL_Northern States Power Company dba Xcel Energy-Gas_Xcel Miscl Gas