

April 1, 2015

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G002/M-15-195

Dear Mr. Wolf:

Attached are the *Comments* of the Minnesota Department of Commerce, Division of Energy Resources (Department), in the following matter:

Petition of Northern States Power Company d/b/a Xcel Energy (Xcel Gas or the Company) for Approval of Extension Surcharge Provisions in the New Area Surcharge Rider Tariff and to Bring Barnesville and Holdingford Under the Governance of the Modified Tariff.

The *Petition* was filed on March 2, 2015 by:

Paul J. Lehman
Manager, Regulatory Compliance and Filings
Xcel Energy
414 Nicollet Mall, 7th Floor
Minneapolis, MN 55401

As discussed in greater detail in the attached *Comments*, the Department recommends that the Minnesota Public Utilities Commission (Commission) **approve** the Company's *Petition*. The Department is available to answer any questions that the Commission may have in this matter.

Sincerely,

/s/ MICHELLE ST. PIERRE
Financial Analyst

MS/lt
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET No. G002/M-15-195

I. THE COMPANY'S PROPOSAL

On March 2, 2015, Northern States Power Company, d/b/a Xcel Energy (Xcel Gas or the Company) filed its Petition to the Minnesota Public Utilities Commission (Commission) for approval of modified tariffs reflecting the addition of proposed terms for an Extension Surcharge (ES) Rider to the existing New Area Surcharge (NAS) Rider and to bring Barnesville and Holdingford under the governance of the modified NAS and ES Riders tariff.¹

Xcel Gas proposed the ES-related provisions to address the new types of extension projects arising in its rural service territory.² The Company stated that the NAS and ES projects can be distinguished in two ways: the project's ownership and accounting treatment. Xcel Gas stated:³

When the Company owns the facilities, the project is under the NAS. Where a third party builds all or part of the transmission pipeline and we enter into a demand entitlement contract to pay for the construction of the pipeline, the project is under the ES. The proposed separate accounting methodologies, if approved, would apply to the ES and the NAS....

¹ On March 26, 2015, Xcel Gas refiled its Petition to correct its Attachment A which was missing the tariff header and footer information.

² Petition, page 1.

³ *Id.*

The definitions of NAS and ES projects are included in the Rate Section of the tariff. As discussed further below, the accounting treatment for the projects is included in the Revenue Requirements Section of the tariff.

In its filing, Xcel Energy stated that it seeks approval of:⁴

- modifications to the existing NAS Rider tariff to add new ES Rider terms, conditions, and accounting methodology;
- modifications to change the maximum term from fifteen to thirty years;
- minor modifications to use consistent terminology throughout the tariff; and
- inclusion of the Barnesville and Holdingford projects under the governance of the proposed ES tariff on a going-forward basis.

II. BACKGROUND

The Company received approval for surcharging communities through the NAS Rider a number of times since it was initially approved by the Commission in the 1990's. The most recent of these requests was to provide natural gas service to the communities and surrounding areas of Barnesville, Holdingford, and Pillager in Docket No. G002/M-14-583 (Docket No. 14-583). In the Commission's October 31, 2014 *Order Approving Surcharges and Requiring Compliance Filings*, Order Paragraph 5 stated:

Xcel shall confer with the Department and Commission staff to determine a method of accounting for costs recovered through the Barnesville and Holdingford surcharges that would allow recovery of expenses and recovery of gas costs as necessary only for extending service to these communities. Xcel shall promptly file a compliance filing detailing how these surcharges will be accounted for.

Xcel Gas explained that in Docket No. 14-583, "the Commission approved the extension of service to Barnesville and Holdingford and the accompanying surcharges, but left open to the Company to propose a means of accounting for the surcharges, after conferring with the Department and Commission Staff."⁵

The Department and Commission Staff met⁶ with the Company to discuss the ES model accounting and formatting and potential tariff modifications. Xcel Gas stated:⁷

⁴ Petition, pages 1-2.

⁵ Petition, page 8.

⁶ The meetings were held on October 8, 2014 and January 22, 2015.

⁷ Petition, page 4.

The Company and the agencies came to an agreement on an accounting treatment for those two projects, which is reflected in the current accounting treatment for the Barnesville and Holdingford projects. The Company and the agencies determined at that time that these new projects would be described as “Extension Surcharge” projects and referred to accordingly in our tariff book and on customer bills.

Xcel Gas stated that “[p]ursuant to the Barnesville and Holdingford discussions, the Company makes this proposal for a new accounting treatment and a modified NAS tariff.”⁸ Further, “[t]he Company understands the outcome of these discussions to be general agreement on the proposed accounting treatment.”⁹

III. THE DEPARTMENT’S ANALYSIS

The Department reviewed Xcel Gas’ filing. The Department supports all of the Company’s proposals including to:¹⁰

- modify its existing NAS Rider tariff rather than introduce a new tariff in order to bring these similar Rider treatments together in its Gas Rate Book;
- rename the tariff to “New Area Surcharge and Extension Surcharge Riders;”
- cease describing the rate listing as Rider No. 2 and move NAS rate information to the end of the NAS and ES Riders tariff on Section No. 5, Sheet No. 51¹¹ ;
- ensure statements are true for both NAS and ES projects; and
- increase consistency in terminology.

The Department discusses each of Xcel’s additional proposed changes below.

A. SURCHARGE RATE CHANGES

Xcel Gas proposed to reevaluate the model when a new community is added and determine if the addition of the new community can reduce the surcharge rate for existing customers.¹² Further, the Company proposed to only change the surcharge rates if the rates would decrease by one percent or greater.¹³ Xcel Gas stated that:¹⁴

⁸ *Id.*

⁹ *Id.*

¹⁰ Petition, page 5.

¹¹ Petition, page 7.

¹² The Department notes that this proposal was not discussed in the meetings with Commission staff and the Department.

¹³ The proposed language would be added to the Method Section of the tariff.

¹⁴ Petition, page 6.

We believe this is a reasonable threshold for making changes to the rate, as we balance the need for administrative efficiency against the ongoing accuracy of the actual revenue requirement. The proposal to lower the surcharge rates will be included in our petition to add the community.

The residential rates for Barnesville and Holdingford are \$23.99/month and \$14.45/month, respectively.¹⁵ Thus, a one percent decrease would be approximately \$0.24/month and \$0.14/month, respectively. The Department agrees that one percent or greater is reasonable for administrative efficiency.

B. 30-YEAR MAXIMUM TERM

Regarding the 30-year maximum term for the NAS and ES Surcharge Riders, Xcel Gas expects that most projects will continue to have terms around fifteen years but that extra time could provide more flexibility for high-expense projects and the ability to reduce the monthly payment amounts by spreading the costs over a longer horizon.¹⁶ The Company noted that the Commission approved a thirty-year maximum term for CenterPoint Energy in Docket No. G008/M-650. The Commission also approved Minnesota Energy Resources Corporation's request to change the maximum term of its NAS tariff from 15 to 30 years in Docket No. G011/14-M-524. The Department supports Xcel's proposal to set a 30-year maximum term, particularly in light of Commission precedent.

C. EXPIRATION

The current Expiration Section of the tariff explains that the NAS could end early if the model demonstrates that the revenue requirement for the project has been met ahead of schedule. The proposed modification clarifies that provision and extends the provision to ES projects as follows:¹⁷

The surcharges for all customers in an area subject to the NAS or ES shall terminate on the date specified for the project in the Company tariff or, if the model demonstrates that the revenue requirements have been met for a project, the surcharge will expire on the date the approved revenue deficiency is retired, whichever occurs first. The Company assumes the risk for under recovery of expansion costs, if any, which may remain at the project's expiration date.

¹⁵ The rates for all customer classes are listed on Xcel Gas' Attachment A, page 13.

¹⁶ Petition, page 6.

¹⁷ Xcel Gas' Attachment A, page 20.

The Department does not oppose this language and the extension of the provision to ES projects.

D. ACCOUNTING TREATMENT

The proposed changes to the accounting treatment for the projects would be included in the Revenue Requirements Model Section of the tariff. Xcel Gas proposed a series of modifications to the revenue requirements model. The Company explained that the ES model has two new columns and that property tax has been split out of Operating Expense: ¹⁸

ES revenues will first be applied as revenue to expenses of the demand entitlement contracts entered into to construct the pipeline for ES projects (in the new Pipeline Supplier Expenses column). The revenues will be shown in the new Non-CIAC Surcharge Revenues. Revenues in excess of those Pipeline Supplier Expenses will be treated as CIAC in the Surcharge Revenue column. All NAS revenues will continue to be treated as CIAC in the Surcharge Revenue column.

As noted in the current tariff, property taxes were originally included as part of Operating Expenses. Several years ago they were split out into their own column in the model, but the tariff was not updated to reflect that change.

Regarding Xcel Gas' proposal to treat revenues in excess of Pipeline Supplier Expenses as CIAC, the Company stated: ¹⁹

The accounting methodology presented here is slightly altered from when we discussed terms for Barnesville and Holdingford with the Department and Commission staff. However, we believe the accounting methodology in this filing addresses the concerns of the Department and Commission staff better than our agreement did. This is because we are proposing to allocate ES revenues against the demand entitlement contract expenses first. Parties raised concerns in Docket No. G002/M-14-583 that the current practice of applying ES revenues to CIAC first and then to the demand entitlement contract expenses results in the demand entitlement contract expenses not being fully recovered for through the ES surcharges.

¹⁸ Petition, page 7.

¹⁹ Petition, Page 8.

Xcel Gas' proposed ES model changes are summarized in its Attachments B, page 13, and C, page 13. The summaries show the surcharge initially applied as CIAC in 2014 and after 2014, the surcharge being applied to pipeline supplier costs. The Department agrees that for ES projects, the revenues should be applied first to the related pipeline supplier costs (demand and commodity) and any excess to CIAC. The Department recommends that this treatment be effective as of the date of the Commission's Order in the current docket.

E. RATES OF RETURN

Xcel Gas proposed to standardize descriptions of the source for rate of return, equity rate, debt rate, etc. to be the "most recent natural gas general rate proceeding or other rate approved by the Commission."²⁰ The Department notes that the proposed language would be in the Revenue Requirements Model and Method sections of the tariff. This modification is consistent with the Order in Docket No. 14-583 where the Commission approved a debt rate that was lower than in the Company's most recent natural gas general rate case.

F. BARNESVILLE AND HOLDINGFORD

Regarding Xcel Gas's proposal to bring the extension surcharges for Barnesville and Holdingford under the governance of the proposed NAS and ES Riders tariff, Xcel Gas proposed to retain the approved surcharge rates for both projects.²¹ The Company stated that "the Commission ordered that the Barnesville and Holdingford surcharges be effective for the full 15-year term."²² Further, the Company requested that, "if the Commission approves bringing the projects under the governance of the proposed NAS and ES Riders tariff, the surcharge term allows for the potential to terminate early if the revenue requirement is satisfied per the terms of the proposed tariff."²³ The Department concludes that this request seems to be in keeping with the Commission's Order in Docket No. 14-583 to determine a method of accounting for costs recovered through the Barnesville and Holdingford surcharges that would allow recovery of expenses and recovery of gas costs as necessary for extending service to these communities. Therefore, the Department recommends that the Commission allow the Barnesville and Holdingford projects to be under the governance of the proposed NAS and ES Riders tariff.

²⁰ Petition, page 5.

²¹ Xcel Gas' Attachments B (Barnesville) and C (Holdingford) provide the actual revenue and expenses from November – December 2014 using the new ES accounting model. The models show revenue deficiencies. The Department notes that the actual number of customers for both projects is significantly less than projected for 2014, especially for Barnesville.

²² Petition, page 8. The Department notes that a 15-year term was not specifically ordered but was implied in that Order Paragraphs 1 and 2 state that the Company's costs cannot be recovered elsewhere for the 15-year term of the agreements.

²³ *Id.*

IV. DEPARTMENT'S RECOMMENDATIONS

The Department recommends that the Commission approve the proposed NAS and ES Riders tariff which includes the:

- method of accounting for ES projects effective as of the date of the Commission's Order in the current docket;
- condition that when a new town is added, the approved surcharge rates would change only if the rates were to decrease by one percent or greater; and
- change to the maximum term of the NAS and ES tariff from 15 to 30 years.

The Department also recommends that the Commission allow the Barnesville and Holdingford projects to be under the governance of the proposed NAS and ES Riders tariff.

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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
Comments**

Docket No. G002/M-15-195

Dated this **1st** day of **April 2015**

/s/Sharon Ferguson

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