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February 27, 2015

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

—Via Electronic Filing—

RE: ANSWER TO THE OAG'S PETITION FOR RECONSIDERATION
GAS UTILITY INFRASTRUCTURE COST RIDER
DOCKET NO. G002/M-14-336

Dear Mr. Wolf:

Northern States Power Company, doing business as Xcel Energy, submits to the Minnesota Public Utilities Commission this Answer to the February 17, 2015 Petition for Reconsideration filed by the Office of the Attorney General – Antitrust and Utilities Division. The OAG asked the Commission to reconsider its January 27, 2015 Order approving with modifications the Company's proposed Gas Utility Infrastructure Cost (GUIC) Rider.

We have electronically filed this document with the Commission, and copies have been served on the parties on the attached service list. Please contact me at (612) 215-4662 or Alison.C.Archer@xcelenergy.com if you have any questions regarding this matter.

SINCERELY,

/s/

ALISON C. ARCHER
ASSISTANT GENERAL COUNSEL

c: Service List

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

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

IN THE MATTER OF THE PETITION OF
NORTHERN STATES POWER COMPANY
FOR APPROVAL OF A GAS UTILITY
INFRASTRUCTURE COST RIDER

DOCKET NO. G002/M-14-336

**ANSWER TO THE PETITION FOR
RECONSIDERATION OF THE ATTORNEY
GENERAL – RESIDENTIAL UTILITIES
AND ANTITRUST DIVISION**

INTRODUCTION

Northern States Power Company, doing business as Xcel Energy, submits to the Minnesota Public Utilities Commission this Answer to the February 17, 2015 Petition for Reconsideration filed by the Office of the Attorney General – Antitrust and Utilities Division. The OAG asked the Commission to reconsider its January 27, 2015 Order approving with modifications the Company’s proposed Gas Utility Infrastructure Cost (GUIC) Rider.

The OAG’s argument does not impact the ultimate conclusion that the 20 inch pipe diameter is not a betterment, is the most prudent and reasonable size for the East Metro Pipeline project, and that these costs are properly recoverable through the approved Rider. Thus, there is no basis to find the Commission’s Order “unlawful” or “unreasonable” as required under Minn. Stat. § 216B.27, subd. 3.¹ We therefore respectfully request the Commission deny the OAG’s Request for Reconsideration.

The Commission properly concluded that the choice of pipe diameter for the East Metro Pipeline was prudent and recoverable through the GUIC Rider, and that the class allocation for costs was appropriate. If the Commission were to deny the recovery of the

¹ Under Minn. Stat. § 216B.27, subd. 3, the Commission has the authority to “reverse, change, modify, or suspend” the Order if, “in the Commission’s judgment ... it shall appear that the original ... order ..., is in any respect unlawful or unreasonable.”

incremental difference in costs from the 20 inch pipe through the GUIC Rider Surcharge, the potential impact on the project's 2015 revenue requirement is \$23,800. This would result in an adjustment to a residential customer's rate of approximately \$.03/year.

I. The Commission properly decided that the East Metro Pipeline project did not constitute a “betterment.”

The Commission's conclusions regarding the East Metro Pipeline, and specifically, its finding that the use of 20 inch pipe in the construction of the pipeline does not constitute a betterment, are proper for three primary reasons. First, the Company's updated modeling information has no impact on the conclusion that the 20 inch pipe diameter is the most reasonable and prudent choice for the project. Second, contrary to the OAG's conclusive statements, the MAOP (maximum allowable operating pressure) is not the appropriate measure of capacity in the context of the East Metro Pipeline project. Finally, the Company is not in a position to operate the pipeline at a higher capacity than its current plans call for. For these reasons, the use of 20 inch pipe does not constitute a “betterment.”

A. The revised information does not change the conclusion that the 20 inch pipe is the most reasonable and prudent size for the project.

The OAG claims that corrected information that the Company recently provided through discovery regarding the capacity of the East Metro Pipeline results in a portion of that project being a “betterment” that is unrecoverable through the GUIC Rider. The revised information, however, does not change the conclusions that utilizing standard 20 inch pipe was appropriate, is not a betterment, or regardless of whether it is a betterment, is recoverable through the Rider.

As stated in its January 27, 2015 Order, the Commission properly concluded that “[u]sing 20-inch rather than 18-inch pipe is not a betterment because it is the best engineering choice to restore the pipe to its original, safe condition.” (Order p. 11) Further, the Commission determined that for safety purposes “[u]sing the 20-inch pipe is the most prudent choice incidental to fulfilling federally mandated pipeline-integrity requirements. Therefore, the 20-inch pipe is “based on” requirements by a federal agency and would be permissible betterment under the GUIC statute.” (Order p. 11). The recently revised capacity information continues to support these conclusions.

The OAG is correct that our Petition included an estimate that the East Metro Pipeline capacity will increase by 695 Dth/hour. When the Company began responding to the OAG's post-hearing discovery, we discovered that a more accurate

estimate indicates that the East Metro Pipeline capacity will increase by approximately 1,269 Dth/hour. The Company provided updated estimates to parties including the OAG, the Department, and the Commission on February 10, 2015 when it submitted a timely response to OAG Information Request No. 1044 and revised responses to related OAG IR No. 1019 and the Commission's informal IR No. 1, Part 6. The inadvertent error in our Petition does not impact the analysis or the conclusion that the 20 inch pipe was the only option for a safe and reliable replacement.

As parties are aware, the total length of the East Metro project is 59,285 feet, or approximately 11.2 miles. Once the project is completed, the entire length of the project will be a consistent 20 inch steel pipe versus the originally constructed pipeline of varying diameters ranging from 16 inches to 24 inches.

The construction of a continuous 16 inch diameter line spanning the entire length was not feasible as it would not provide sufficient capacity for current levels of natural gas usage on the line. Construction of an 18 inch diameter line was considered, as the diameter met current capacity needs; however, it presented unique operational challenges. Across the gas industry, and across the Company's current gas system, 18 inch diameter pipe is considered to be a non-standard diameter. Utilizing a non-standard pipe diameter can result in safety issues and operational constraints such as limited availability of pipe fittings, longer lead times for pipe and fittings, and less availability of tapping and stopple equipment. In the event of an emergency situation on the East Metro Pipeline, swift repairs to the condition of the pipeline are paramount, and making repairs on an industry standard pipeline will aid the promptness of those repairs.

On the other hand, the majority of existing pipelines in the Company's bulk gas system are constructed of 20 inch diameter pipe (County Road "B" Line and the East County Line), which provides for synergies across the system in the case of repairs and in-line assessments. Constructing the pipeline with a consistent 20 inch diameter allows the Company to utilize state of the art In-Line Inspection (ILI) tools to regularly assess the health and condition of the line and proactively make repairs as needed based on results from these assessments. These assessment methodologies provide a higher level of safety for our customers and the people and property in the areas near the line. Based on these considerations, the Company elected to replace the entire length of the project with 20 inch diameter pipe and does not consider the result to constitute betterment.

These are the facts upon which the Commission relied to make its decision in this Docket. The revised capacity information does not change the fact that the 16 inch pipe is too small, the 18 inch pipe is non-standard and thus not optimal for public

safety (a primary goal of the TIMP program), and the industry standard 20 inch pipe is the most appropriate solution. The change in the pipeline's estimated increase in capacity is not information that warrants reconsideration. Reconsideration is not warranted because the updated information does not cause the Commission's decision to be unlawful or unreasonable.

The Company firmly supports that the entirety of the East Metro Pipeline project is recoverable through the Rider. We provided the OAG with the following table which shows the cost difference between the non-conforming 18 inch pipe and the selected 20 inch pipe:

Table 1
Capital Cost of Pipe

	Uninstalled Capital Expenditures (Pipe Cost alone)	Installed Capital Expenditures
18-inch Pipe	\$2,190,078	\$68,753,478
20-inch Pipe	\$2,436,600	\$69,000,000
Cost Difference (20 inch-18 inch)	\$246,522	\$246,522
Change in 2015 Revenue Requirement	\$23,800	\$23,800

B. The Company is not in a position to operate the East Metro Pipeline system at a higher pressure.

Contrary to the OAG's claim that an increase in the line's potential operating pressure warrants reconsideration of the Commission's Order, the increase in the potential operating pressure has no impact on any of the facts at hand. The Company has no plans to operate the East Metro system at a pressure higher than 175 psig, and in fact, is unable to operate the system at a higher operating pressure without significant additional system investments. The East Metro Pipeline is part of a series of integrated pipelines that all operate at 175 psig. The integration of these pipelines allows Xcel Energy to take gas from sources in Mendota Heights, Vadnais Heights,

Lake Elmo and Woodbury and bring gas into the East Metro Pipeline from both the north and the south.

There is only one existing source of gas supply at 650 psig: the Cedar Line, which terminates at the Mendota Station. In order to operate the East Metro Pipeline at 650 psig, Xcel Energy would need to replace both the Montreal Line South (9,300 feet of pipeline with a major river crossing) and the Island Line South (11,700 feet of pipeline with a major river crossing). In addition to pipe replacement, Xcel Energy would need to rebuild Mendota Station, install new regulation at Rice Street & B Street, and make modifications to the Sibley Propane Air Peaking Plant. The Company estimates that these investments would cost in excess of \$17 million in capital.

In addition to the capital costs needed to upgrade the system, the Company has no plans to modify the gas system to provide 650 psig to the East Metro pipeline because it would be unnecessary to meet any current or forecast demand. The Company has detailed this for the OAG in response to Information Request No. 1019 as submitted December 22, 2014. OAG IR No. 1019 is included as Attachment A.

Because operating the system at 650 psig is not possible without significant system upgrades and a demonstrable future demand, the OAG's claims about the increased MAOP resulting from the 20 inch pipe are irrelevant.

C. The change in MAOP also does not have an impact on whether the use of 20 inch pipe is the most appropriate choice for the project and is not a betterment.

The Company opted to use 20 inch pipe for the East Metro Pipeline project because it was the most prudent choice for its required safety plans. The increased potential operating pressure is a result of the enhanced safety design. It is not the result of a Company plan to operate the line at a higher pressure. In other words, the resulting MAOP was not a design criteria, and regardless of whether the resulting operating pressure potential increased, the Company would still have selected 20 inch pipe.

The MAOP of 650 psig is simply the outcome of using modern pipe material and modern construction practices. The MAOP is a calculation made in accordance with 49CFR Part 192 design and strength test formulas.

The choice of pipe diameter, as described above, is the most prudent way to satisfy the requirements of the federal safety plans. It will not result in any increased capacity on the line or any increased sales to customers. Thus, the MAOP is not evidence of a "betterment" and is not grounds for Commission reconsideration.

II. The Commission properly decided the class allocation for the GUIC Rider.

When the Commission determined that the 2015 GUIC revenue requirement be allocated to Xcel Energy's customer classes according to the apportionment approved in the Company's last natural gas rate case, it did so because "there is nothing in the record to indicate that circumstances have changed such that the allocation is no longer appropriate."² The OAG was supportive of this cost allocation at the Commission hearing on this matter. The OAG's Petition now takes issue with the allocation of costs to customer class for costs stemming from the 20 inch pipe used for the East Metro Pipeline.

The Company believes the class allocation of the GUIC costs, including the East Metro Pipeline costs, do not result in an inappropriate bill impact for interruptible customers. The OAG's conclusions about the impact of the pipeline on interruptible customers are inaccurate because the East Metro Pipeline project, including its use of 20 inch pipe, will result in the provision of gas service that will continue to face interruptions. There are upstream reasons that will cause us to curtail gas service that are entirely unrelated to this pipeline.

To provide further context for this discussion, we reviewed customer curtailments over the previous four winters. What we found is that the completion of the East Metro Pipeline project would not result in increased sales to interruptible customers. All the curtailments over the previous four winters were caused by the inability to get supply delivered on the interstate pipeline to NSP's service territory.

In all cases of gas curtailment over the past four years, had the new East Metro Pipeline been in service with the increased capacity, it would not have produced a different result. Increased capacity on the line would not have eliminated the need to curtail service, and the interruptible customers would still have been interrupted. Had the East Metro Pipeline been in service, interruptible customers would not have experienced increased sales.

For these reasons, the allocation the Commission approved for costs associated with the East Metro Pipeline project was appropriate. The GUIC costs benefit all classes of customers, and the apportionment based on the revenues in the last gas case assigns the costs to all classes of customers.

² Order Approving Rider with Modifications, page 12.

CONCLUSION

The conclusions in the Commission's January 27, 2015 Order regarding the East Metro Pipeline are lawful, reasonable, and based on evidence in the record. The Company's updated calculations have no impact on the ultimate decision about pipeline size, nor the conclusion that the use of the 20 inch pipe is not a betterment. The Company also notes that the cost allocation for interruptible customers is appropriate because there would be no decrease in curtailment as a result of the increased capacity on the line. The OAG's Petition does not meet the standards required for granting reconsideration, and therefore, the Petition should be denied.

Dated: February 27, 2015

Northern States Power Company

- ☐ **Non Public Document – Contains Trade Secret Data**
☐ **Public Document – Trade Secret Data Excised**
☒ **Public Document**

Xcel Energy

Docket No.: G002/M-14-336

Response To: Office of the Attorney General Information Request No. 1019

Requestor: Ryan Barlow

Date Received: December 9, 2014

Question:

For all responses show amounts for Total Company and the Minnesota jurisdictional retail unless indicated otherwise. Total Company is meant to include costs incurred for both regulated and nonregulated operations.

Reference: East Metro project and Commission IR 6

Provide the percentage of the pipelines capacity that was dedicated to firm capacity before construction and the percentage that will be for firm capacity after construction. Provide your answer for both 175 and 650 psi.

Response:

The original pipeline was constructed in phases over the course of many years based on firm load requirements at design day temperatures. The current design day in the St. Paul Metro Area is 91 degree days or -26 degrees Fahrenheit. Gas pipelines are not designed to serve interruptible customers, only firm customers. Each new extension of the pipeline was independently evaluated, and a diameter was selected. As a result, the pipeline was constructed of multiple diameters that ranged from 16-inch to 24-inch. Company engineers selected a 20-inch pipe diameter for the new pipeline based on the need to serve the existing demand as well as prudent operational considerations. A 16-inch diameter pipeline would not have been large enough to serve the existing demand. Xcel Energy does not use 18-inch pipe for new construction because it is non-standard and creates undesirable operational constraints such as limited availability of pipe fittings, longer lead times for pipe and fittings, and less availability of tapping and stopple equipment.

Prior to the current project, the East Metro pipeline operated at a Maximum Allowable Operating Pressure (MAOP) of 175 pounds per square inch (psi) with a capacity of 5,275 Dth/hour. This capacity was fully dedicated to the Company's firm

customers at design day temperatures. After the project is completed in 2016, the new pipeline capacity will be 5,970 Dth/hour and will operate at the same pressure (175 psig) as the pipeline being replaced. However, as a matter of sound engineering practice, it will be pressure tested to 1000 psig to ensure there are no manufacturing or construction flaws present. While this pressure test will qualify the pipe to be operated at higher pressures, up to 650 psig, the purpose of the pressure test is to ensure that the pipeline has no flaws that may present a current or future safety concern. Xcel Energy has no plans to operate the pipeline above 175 psig.

Preparer: Eric Kirkpatrick
Title: Director, Gas Engineering
Department: Gas Engineering
Telephone: (303) 571-3223
Date: December 22, 2014

CERTIFICATE OF SERVICE

I, Tiffany R. Hughes, hereby certify that I have this day served copies or summaries of the foregoing document on the attached list(s) 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

Docket No. G002/M-14-336

Dated this 27th day of February 2015

/s/

Tiffany R. Hughes
Records Analyst

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