

Minnesota Public Utilities Commission
Staff Briefing Papers

Meeting Date: March 24, 2016..... *Agenda Item #5

Company: Northern States Power Company (Xcel)

Docket No. **G002/M-16-40**

In the Matter of the Petition of Northern States Power Company (Xcel) for Approval of Extension Surcharge (ES) for Ulen, Hitterdal, and Surrounding Communities.

Issue: Should the Commission approve Northern States Power Company's (Xcel) proposed Extension Surcharge (ES) rider for the communities of Ulen, Hitterdal, and the Surrounding Areas?

Should the Commission approve Xcel's proposed 75 foot service line extension allowance for its NAS/ES riders' tariff sheets?

Should the Commission approve Xcel's proposed Assignment and Assumption Agreement between Greater Minnesota Transmission (GMT), West Central AG Services, and Xcel?

Should the Commission accept Xcel's proposed revision of the service area for the Barnesville and Holdingford ES riders approved in Docket Nos. G-002/M-14-583 and G-002/M-15-195?

Should the Commission accept Xcel's proposal to continue its annual NAS/ES project reporting requirements on March 1 of each year, pursuant to Docket No. G-002/M-14-583?

Staff: Bob Brill 651-201-2242

Relevant Documents

Northern States Power Company (Xcel) - Petition (Non-Public)..... January 12, 2016
Department of Commerce (Department) – Comment February 11, 2016
Xcel – Reply Comments February 17, 2016

The attached materials are workpapers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless otherwise noted.

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March 9, 2016

Statement of the Issue

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Should the Commission approve Xcel's proposed 75 foot service line extension allowance for its NAS/ES riders' tariff sheets?

Should the Commission accept Xcel's proposed revision of the service area for the Barnesville and Holdingford ES riders approved in Docket Nos. G-002/M-14-583 and G-002/M-15-195?

Should the Commission accept Xcel's proposal to continue its annual NAS/ES project reporting requirements on March 1 of each year, pursuant to Docket No. G-002/M-14-583?

Relevant Statutes

Regulation of Intrastate Natural Gas Pipeline. Minn. Stat. § 216B.045.

Subd. 4. Contract; commission approval.

No contract establishing the rates, terms, and conditions of service and facilities to be provided by intrastate pipelines is effective until it is filed with and approved by the commission. The commission has the authority to approve the contracts and to regulate the types and quality of services to be provided through intrastate pipelines.¹

Northern States Power Company (Xcel)

In its January 12, 2016 Petition, Northern States Power Company (Xcel) requested Commission approval of an Extension Surcharge (ES) rider to provide natural gas retail services to the Cities of Ulen and Hitterdal and surrounding areas.² In order to provide retail natural sales service to these areas, Xcel proposed to enter into an Assignment and Assumption Agreement with Greater Minnesota Transmission (GMT) and West Central Ag Services (WCAS).³

In its petition, Xcel included the proposed tariff sheet revisions to its NAS and ES rider.⁴ In its ES model, Xcel used the capital structure and debt rates approved in the Commission's Order in

¹ The approval of a contract for an intrastate pipeline to provide service to a public utility does not constitute a determination by the commission that the prices actually paid by the public utility under that contract are reasonable or prudent nor does approval constitute a determination that purchases of gas made or deliveries of gas taken by the public utility under that contract are reasonable or prudent.

² Includes the townships of Goose Prairie, Ulen, and Highland Grove.

³ See Xcel's petition dated January 12, 2016, Attachment A.

⁴ See Xcel's petition dated January 12, 2016, Attachment D, Minnesota Gas Rate Book – MPUC No. 2, Sheet No. 5-47, revision 5 and Sheet No. 5-51, revision 2.

E-002/GR-13-868.⁵ Xcel proposed that the Ulen/Hitterdal ES rider would be recovered over a 15 year term.

In order to provide retail natural gas services to the proposed communities, Xcel proposed to enter into an Assignment and Assumption Agreement with Greater Minnesota Transmission (GMT) and West Central AG Services (see PUC staff's comments).

Xcel requested Commission approval for its proposed change in its current tariff Sheet No. 5-47, to include a 75 foot service line extension allowance for new ES customers taking retail natural gas services from its proposed Ulen/Hitterdal service line extension. Xcel stated that it will seek recovery of the cost of these allowances in its next general rate case.^{6, 7} Xcel believes this change is equitable for all customers.⁸

Xcel stated that its proposed Ulen/Hitterdal ES rider will not have an impact on its overall natural gas revenues or its operating surplus or deficiency.

Xcel requested that the Commission approve its Petition by May 15, 2016, prior to the start of the 2016 construction season so that Xcel can complete work in time for customers to receive natural gas service before the 2016-2017 winter heating season.

Department of Commerce

The Department reviewed Xcel's Ulen/Hitterdal ES rider proposal analyzing the model's compliance with Xcel's Natural Gas Tariff Book. This analysis found that the ES model used by Xcel is in compliance with the Commission approved model illustrated in Xcel's tariff book and is generally consistent with the Barnesville-Holdingford model.⁹ The Department reviewed the model assumptions including Xcel's projected saturation rates, depreciation treatment, contingency allowances, and capital structure, and did not discover any issues.¹⁰

The Department reviewed Xcel's proposed tariff modification that would allow Xcel to incorporate a 75 foot service line extension allowance into its NAS and ES rider tariff sheets.¹¹ The Department agreed with Xcel's argument that all system customers benefit from the addition of NAS and ES rider customers when the NAS and ES rider customers are included in Xcel's customer count in its next general rate case. The Department agreed with Xcel that it was

⁵ Xcel's most recent approved electric general rate case.

⁶ Similar to how its current service extension allowances are recovered for new retail natural gas services.

⁷ The ES/NAS customers would pay for the extension costs that exceed the standard 75 foot service, similar to Xcel's current line extension policy for new retail sales customers, through a Contribution In Aid of Construction (CIAC).

⁸ The Commission accepted PUC staff recommendation to allow a 75 foot extension line allowance for NAS rider in Docket No. G-011/M-15-441, see the Commission's February 28, 2015 Order.

⁹ Docket Nos. G-002/M-14-583 and G002/M-15-195.

¹⁰ The Department noted that Xcel assumed a 15% contingency in this model, as compared to 10% in the previous model. However, the Department does not believe this assumption is unreasonable, considering that Xcel is required to end the surcharge early if its costs are fully recovered through the ES rider before the end of the 15-year proposed term.

¹¹ See Minnesota Gas Rate Book – MPUC No. 2, Section 6, Sheet No. 18.1

reasonable to allow for a service line extension allowance (a benefit for the NAS and ES rider customers), similar to Xcel's current service line extension allowance for its other retail sales service new customers.

Further, Xcel proposed to enter into an Assignment and Assumption Agreement with Greater Minnesota Transmission (GMT) and West Central AG Services. In Docket No. PL-6580/M-14-578, the Department analyzed the WCAS/GMT Agreement and determined that it was in compliance with Minnesota statutes and rules.¹² The Department concluded that this petition's Agreement, as amended, continues to meet all applicable requirements under Minnesota statutes and rules.

The Department reviewed Xcel's annual reporting requirement proposal to submit its Ulen/Hitterdal ES project by each March 1. The Department concluded that this was the same reporting requirement approved in Docket No. G-002/M-14-583.¹³

Department Recommendation

The Department concluded that Xcel's request was reasonable and in compliance with Commission Rules and Xcel's current tariff. The Department recommended that the Commission approve Xcel's Petition, and require Xcel to submit its compliance filing within 10 days of the Commission's Order. The Department's recommendation included:

1. Approval of the Ulen-Hitterdal ES Rider; and
2. Modification of the ES rider tariff sheets to include the service line extension allowance; and
3. Approval of the Assignment and Assumption Agreement; and
4. Clarification of the communities served under the previously approved ES Riders; and
5. Approval of Xcel's request to set annual reporting requirements.

In its February 17, 2016 *Reply Comments*, Xcel agreed with the Department's recommendations.

PUC Staff Comment

On May 13, 1994,¹⁴ the Commission approved Xcel's request to add a New Area Surcharge Rider (NAS Rider) to its tariff book which allowed Xcel to extend natural gas service into new areas that were uneconomic. The most recent version of Xcel's NAS tariff was expanded to include its Extension Surcharge (ES) Rider proposal.¹⁵ Xcel updated its tariff book to include both NAS and ES rider mechanisms for providing service to uneconomical areas.

The difference between Xcel's NAS and ES riders is that under the ES rider a third party is providing intrastate transportation services to Xcel so that it can provide retail natural gas

¹² See the Department's July 21, 2014 Comments in Docket No. PL-6580/M-14-578, marked as "Trade Secret."

¹³ See the Commission October 31, 2014 Order.

¹⁴ See Docket No. G-002/M-94-156.

¹⁵ See the Commission July 10, 2015 Order in Docket No. G002/M-15-195.

services. In its NAS rider, Xcel constructs all the facilities to provide services. In addition, Xcel's ES rider tariff requires different accounting treatment, Xcel first credits all ES rider revenues against the third party intrastate pipelines' demand entitlement costs and then credits any remaining ES revenues to its CIAC account. This accounting treatment does not affect Xcel's overall revenue surplus/deficiency calculations.

Ulen-Hitterdal ES Rider

Xcel's petition requested an ES rider to serve the communities of Ulen, Hitterdal, and the surrounding areas. The ES rider surcharge rates are paid in addition to Xcel's tariffed retail sales rates for each customer class. Xcel proposed to charge the same ES rider surcharge rates to the Cities of Ulen, Hitterdal, and to the surrounding townships (See Table 1).^{16 17 18}

Table 1: Proposed Monthly ES Rider Surcharge Rates for the communities of Ulen, Hitterdal, and surrounding areas

Customer Classes	Proposed Rates \$/month
Residential	23.99
Small Commercial Firm	34.99
Large Commercial Firm	395.00
Commercial Demand Billed	1,150.00
Interruptible	1,150.00
Firm Transportation	1,150.00
Interruptible Transportation	1,150.00
Expiration Date	8/31/2031

The Department noted that Xcel may, under its ES rider tariff, request Commission approval to initiate a recovery term of up to 30 years. However, in this petition, Xcel requested a 15-year term. To assure that Xcel does not over-collect its Ulen/Hitterdal project investment, the ES rider tariff book includes certain tariff language to prevent this from happening. If Xcel collects its full investment through the rider surcharge before the end of the 15-year term, it must stop collecting the rider surcharge. Further, if after 15-years, Xcel's investment is not fully recovered, Xcel must stop the NAS/ES rider surcharge and its shareholders bare all risk of under recovery.

The Department reviewed the assumptions and calculations in Xcel's model and determined they were reasonable. PUC staff agrees.

Service Line Extension Allowances

In its petition, Xcel requested to modify its NAS/ES rider tariff to allow it to provide a 75-foot service line extension allowance to its new NAS/ES rider customers. In Docket No. 15-441,

¹⁶ Xcel proposed to use the accounting methodology as defined in its current ES rider tariff, see Xcel's petition dated January 12, 2016, Attachment B.

¹⁷ For Xcel's proposed ES model calculating the rates, see Xcel's January 12, 2016 petition, Attachment B, pp. 1–13.

¹⁸ The ES rider rates represent those approved by the Commission in its October 31, 2014 Order for Docket No. 14-583 and further in Docket No. 15-195.

staff argued that MERC's existing customers receive a benefit when MERC adds new NAS customers to its general rate case's customer count. PUC staff believed that the MERC NAS customers should also receive a corresponding benefit through a service line extension allowance, which creates a win-win scenario for all system customers.¹⁹ The Commission approved staff's recommendation and the service line extension allowance was incorporated into MERC's NAS tariff.

The Department reviewed Xcel's request and recommended to the Commission that it approve Xcel's request. PUC staff believes Xcel's request is consistent with what the Commission approved for MERC and agrees with the Department that Xcel's request should be approved.

Assignment and Assumption of the GMT/WCAS Firm Transportation Agreement

Greater Minnesota Transmission (GMT) and West Central Ag Services (WCAS) entered into an intrastate transportation contract in Docket No. Docket No. PL-6580/M-14-578.²⁰ Xcel requested Commission approval to enter into an Assignment and Assumption Agreement pursuant to Minn. Stat. § 216B.045, Subd. 4.²¹ The agreement would require WCAS²² (the releasing shipper) to permanently release its transportation rights to Xcel (the acquiring shipper). Further, WCAS will become an Xcel ES rider customer, subject to the terms and conditions of Xcel's ES Rider tariff.²³

The Department reviewed the Xcel's Agreement and determined that it reasonably meets the applicable requirements of Minnesota statutes and rules and recommended approval to the Commission. PUC staff agrees.

Clarification of Communities Served under Xcel's ES Riders

Xcel clarified the communities that were reflected in its Barnesville and Holdingford ES riders approved in Docket Nos. G-002/M-14-583 and G-002/M-15-195. Originally, the ES riders reflected the following service areas for the:

- Barnesville ES rider – the City of Barnesville, and the Townships of Elkton, Humboldt, Riverton, Skree, and Hawley.
- Holdingford ES rider – the City of Holdingford, and the Townships of Holding and Brockway.

¹⁹ See PUC staff's June 29, 2015 briefing papers in Docket No. 15-441 and further the Commission's July 28, 2015 Order.

²⁰ See the Commission's August 22, 2014 Order.

²¹ Minn. Stat. §216B.045, Subd. 4, requires Commission approval of any contract establishing the rates, terms, and conditions of service and facilities being provided by an intrastate pipeline in order for such a contract to be effective.

²² WCAS was among the first parties in this area desiring gas service and engaged GMT, who agreed to bear the costs for the intrastate pipeline's development in exchange for WCAS commitment to sign an intrastate transportation agreement.

²³ New ES rider customers would further share in the intrastate pipelines' cost in exchange for receiving natural retail gas services.

Xcel proposed that the Barnesville ES rider would further include Spring Prairie, Barnesville, and Cromwell Townships. The Holdingford ES rider would further include the Elmdale Township.

The Department reviewed Xcel's clarifications on the Barnesville/Holdingford service areas and agreed with Xcel that the proposed clarifications were appropriate. PUC staff agrees.

NAS/ES Project Reporting Requirements

As ordered in Docket No. G-002/M-14-583, Xcel stated that it will continue to report its NAS/ES projects on March 1 of each year. The Department supported Xcel's proposal and recommended approve to the Commission. PUC staff agrees. However, staff would suggest that Xcel file one report listing all of its NAS/ES rider projects and file the report in the appropriate dockets.²⁴

Decision Alternatives

Ulen-Hitterdal ES Rider

1. Approve the proposed Ulen-Hitterdal and surrounding communities ES Rider; and
2. Require Xcel to submit its ES rider compliance filing within 10 days of the Commission's Order.

or

3. Do not approve the proposed Ulen-Hitterdal and surrounding communities ES Rider.

Service Line Extension Allowances

4. Approve Xcel's proposed NAS/ES rider's 75-foot service line extension allowance and include the allowance in its NAS/ES rider tariff; or
5. Do not approve Xcel's proposed NAS/ES rider's 75-foot service line extension allowance and exclude the allowance in its NAS/ES rider tariff.

²⁴ Includes Docket Nos. 14-583, 15-195, and 16-40.

Assignment and Assumption of the GMT/WCAS Firm Transportation Agreement

6. Approve Xcel's proposed Assignment and Assumption Agreement with Greater Minnesota Transmission (GMT) and West Central Ag Services (WCAS) for intrastate transportation services to transport natural gas to Ulen, Hitterdal and surrounding areas; or
7. Do not approve Xcel's proposed Assignment and Assumption Agreement with Greater Minnesota Transmission (GMT) and West Central Ag Services (WCAS) for intrastate transportation services.

Clarification of Communities Served under Xcel's ES Riders

8. Approve Xcel's clarifications to the communities served in the previous Barnesville and Holdingford ES Riders; or
9. Do not approve Xcel's clarifications to the communities served in the previous Barnesville and Holdingford ES Riders.

NAS/ES Project Reporting Requirements

10. Approve Xcel's request to set annual NAS/ES project reporting requirements on March 1 of each year, pursuant to Docket No. G-002/M-14-583; or
11. Approve Xcel's request to set annual NAS/ES project reporting requirements on March 1 of each year, pursuant to Docket No. G-002/M-14-583, with PUC staff suggestion that Xcel's report include all NAS/ES rider projects in one document filed in the appropriate dockets;²⁵ or
12. Do not approve Xcel's request to set annual NAS/ES project reporting requirements on March 1 of each year, pursuant to Docket No. G-002/M-14-583.

²⁵ Ibid.