Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: **January 26, 2017** .... ***Agenda Item # 3**

Company: All Commission-Regulated Natural Gas Utilities

Docket No. G-999/AA-15-612, et al (please see attached list)

In the Matter of the Review of the 2014-2015 Annual Automatic Adjustment Reports and Annual Purchased Gas Adjustment (PGA) True-up Filings

Issues: Should the Commission accept the natural gas utilities' 2014-2015 annual automatic adjustment reports and 2014-2015 annual true-up filings?

Staff: Sundra Bender 651-201-2247
Bob Brill 651-201-2242

Relevant Documents

Review of the 2014-2015 Annual Automatic Adjustment Reports
Department – Review .... July 1, 2016

Reply Comments
CenterPoint Energy.. July 11, 2016
Minnesota Energy Resources Corporation. .... July 11, 2016

Response Comments
Department – Response ....October 21, 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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January 18, 2017

2014-15 Annual Automatic Adjustment Reports—Docket No. G999/AA-15-612
Docket Numbers for the Gas Utilities' 2014-2015 True-Up Filings:

Docket No. G004/AA-15-794 – Great Plains Natural Gas Company

Docket No. G001/AA-15-796 – Interstate Power and Light Company – Gas Utility

Docket No. G022/AA-15-797 – Greater Minnesota Gas, Inc.

Docket No. G008/AA-15-800 – CenterPoint Energy

Docket No. G011/AA-15-801 – Minnesota Energy Resources Corporation (MERC) – Albert Lea PGA system

Docket No. G011/AA-15-802 – Minnesota Energy Resources Corporation (MERC) – Consolidated PGA system

Docket No. G011/AA-15-803 – Minnesota Energy Resources Corporation (MERC) – Northern Natural Gas PGA system

Docket No. G002/AA-15-809 –Northern States Power d/b/a Xcel Energy – Gas Utility

Table of Contents

Statement of the Issues

Should the Commission accept the natural gas utilities' 2014-2015 annual automatic adjustment reports and 2014-2015 annual true-up filings?

Introduction

Every year the natural gas utilities file by September 1 annual automatic adjustment reports and annual purchased gas adjustment true-up filings for the preceding July 1 through June 30 fiscal gas year. Each year, the Minnesota Department of Commerce, Division of Energy Resources (Department or DOC) performs an extensive review of the utilities' filings. In the current dockets, the natural gas utilities incurred and recovered total purchased gas costs during the 2014-2015 fiscal gas year of approximately $1.14 billion. There are no issues in dispute.

Background

Automatic rate adjustments are covered under Minnesota Rules parts 7825.2390 through 7825.2920. Every year the Commission reviews the automatic adjustment of charges reported in the natural gas and electric utilities' annual automatic adjustment (AAA) reports and the natural gas utilities' annual true-up filings. The Commission's review is closely tied to the Department's review of these filings. The electric utilities' 2014-2015 AAA reports are reviewed and addressed in Docket No. E-999/AA-15-611.

On or about September 1, 2015, the following gas utilities submitted AAA reports in Docket No. G-999/AA-15-612 and true-up filings (true-ups) in the Dockets indicated below:

Greater Minnesota Gas, Inc. (GMG)……………………………………… G022/AA-15-797
Great Plains Natural Gas Co., a Division of MDU Resources Group, Inc.
(Great Plains)……………………………………………………………. G004/AA-15-794
Interstate Power and Light Co., An Alliant Energy Company-Gas Utility
(Interstate Gas) ………………………………………………………… G001/AA-15-796
Minnesota Energy Resources Corporation- (MERC-NNG PGA) ……….. G011/AA-15-803
Minnesota Energy Resources Corporation-(MERC-Consolidated PGA) …G011/AA-15-802
Minnesota Energy Resources Corporation-(MERC-Albert Lea PGA) …….G011/AA-15-801
CenterPoint Energy (CenterPoint Energy or CPE)… …………………… G008/AA-15-800
Northern States Power Company, d/b/a Xcel Energy (Xcel Gas) ………. G002/AA-15-809

Each year, the Department prepares a comprehensive review and analysis of the utilities' annual reports and provides comment on other topics that it believes are important. On July 1, 2016, the Department submitted its REVIEW OF THE 2014-2015 ANNUAL AUTOMATIC ADJUSTMENT REPORTS (Review). In its Review, the Department recommended the Commission accept the FYE15 annual reports as filed by the gas utilities as being complete as to Minnesota Rules, parts 7825.2390 through 7825.2920. The Department also recommended the Commission accept the annual true-up filings of all of the natural gas utilities: GMG, Great Plains, Interstate Gas, MERC, CenterPoint Energy, and Xcel Gas. The Department requested that

MERC provide additional information in reply comments, including a discussion on how MERC could achieve more accurate recovery of the Bison and Northern Border pipeline costs on a going-forward basis.

The Department also provided comments on the gas utilities' 2014-2015 gas costs, peak-day demand profiles and pipeline transportation sources, annual auditor reports, lost-and-unaccounted for gas, contractor main strikes, purchasing and hedging practices, as well as other topics.

On July 11, 2016, MERC and CenterPoint Energy submitted reply comments.

On October 21, 2016, the Department submitted response comments (Department Response). The Department Response addresses MERC's reply comments.

Department Review and Staff Comment

Average natural gas prices were lower in FYE15 than in FYE14. The Department's Review stated: [1]

> …Generally, prices steadily decreased during the reporting period. The Henry Hub price[2] began the reporting period around $4.05 per Mcf range in July 2014 and ended the reporting period around $2.78 per Mcf in June 2015.
>
> Although the industry was relatively unaffected during FYE15 by hurricanes, temperatures during the heating season were colder than normal especially in the period of November 2014 and February 2015, which contributed to significantly higher gas usage in those months. The FYE15 annual temperatures were warmer than normal. Regarding the storage inventory level, following a near record-low at the end of March 2014,[3] the injections were above average due to increasing production and mild weather resulting in lower demand…

FYE15 AAA Reports and True-up Filings

The Department concluded that all six[4] regulated Minnesota gas utilities met the annual filing requirements, including the provision of information relating to fuel procurement and the annual true-up adjustment.

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[1] Department Review at pages ii through iii.

[2] The Henry Hub is a distribution hub on the natural gas pipeline system that serves as the official delivery location for futures contracts on the New York Mercantile Exchange (NYMEX).

[3] March 2014 was just after the polar vortexes, explosion of the TransCanada natural gas pipeline and other energy supply issues.

[4] In Docket No. G-001, G-011/PA-14-107, the Commission issued an Order on December 8, 2014, allowing Interstate Gas to sell its gas distribution facilities to MERC. The sale closed on April 30, 2015. For the time period considered in this report, Interstate Gas served those customers for the ten months July 2014 through April 2015 and reported the required information for those ten months. MERC - Albert Lea reported the required information and true up for the two months May and June 2015.

Gas costs are a significant portion of most customers' bills. The Department found that the gas utilities incurred approximately $1.14 billion in natural gas commodity, transportation, storage and related purchased gas costs for the fiscal year ended June 30, 2015, representing a decrease in gas costs of approximately $518 million, or approximately 31 percent from the level in FYE14. The gas utilities recovered approximately $1.14 billion in natural gas costs in base rates and the monthly purchased gas adjustment (PGA). The PGA system over- and under-recoveries during FYE15 ranged from a 1.90 percent over-recovery for MERC-NNG to an under-recovery of 27.03 percent for MERC-Albert Lea (AL).

The following table (Table G1) was copied from page 5 of the Department's Review.

Table G1[8]: Summary of Gas Utilities' Annual Demand & Commodity Cost Recovery[9]
July 1, 2014 - June 30, 2015

Utility/System	Gas Cost Recovered ($)	Incurred Cost of Gas ($)	Over(Under) Recovery ($)	Over(Under) Recovery (%)
Greater Minnesota	$5,188,933	$5,138,757	$50,176	0.98%
Great Plains				
North	$8,424,527	$8,294,557	$129,970	1.57%
South	$10,700,877	$11,031,735	$(330,858)	(3.00%)
Interstate Gas	$ 7,724,747	$7,741,293	$(16,546)	(0.21%)
MERC				
CON	$30,253,907	$31,485,901	$ (1,231,994)	(3.91%)
NNG	$146,798,026	$144,054,501	$2,743,525	1.90%
AL	$359,513	$492,693	$ (133,180)	(27.03%)
CenterPoint Energy	$600,397,474	$593,338,747	$7,058,727	1.19%
Xcel Gas	$331,753,188	$339,351,066	$ (7,597,878)	(2.24%)
MN TOTAL	**$1,141,601,192**	**$ 1,140,929,250**	**$671,942**	**0.06%**

In footnote 8 of its Review, the Department stated that the information for Table G1 can be found in each of the utilities' true-ups, which are included in the Department's Review as Department Attachments G5 through G11.

As explained and illustrated by the Department on pages 10-11 of its Review, eight of the nine PGA systems over-recovered demand costs during FYE15. The MERC-Albert Lea (AL) system under-recovered demand costs by 12.65%, but had only two months of data (May and June 2015). Six of the nine systems under-recovered commodity costs during FYE15, and three of the systems (Greater Minnesota Gas, Great Plains North, and CenterPoint Energy) over-recovered commodity costs during FYE15.

GMG

GMG over-recovered its FYE15 total gas costs by $50,176, or approximately 0.98 percent. GMG over-recovered its demand costs by $42,511, or approximately 5.84 percent, and over-recovered its commodity costs by $7,665, or approximately 0.17 percent. According to GMG, the demand cost over-recovery was due to customer growth and the commodity cost over-recovery included $8,358 of balancing penalty revenue and NNG penalty credits. GMG's actual FYE15 firm sales of 970,070 Mcf were 70,359, or 7.8 percent higher than its FYE14 firm sales of 899,711 Mcf. The Department concluded that GMG's over-recovery of demand and commodity costs appears to be reasonable.[5]

The Department recommended that the Commission accept GMG's FYE15 true-up, and allow GMG to implement its true-up as shown in DOC Attachment G5 of the Department's Review.[6]

In Docket No. G022/M-11-804, the Commission authorized a new retail service for GMG that allows GMG to purchase natural gas from another local distribution company and resell that gas to GMG retail customers. Part of the Commission's reporting requirements in Docket No. G022/11-804 required GMG to provide the following:[7]

> 6. GMG shall provide each year, in its annual September 1st automatic adjustment of charges report, for each relevant GMG rate class and for each upstream rate schedule used for the purchase for resale service (i.e. for each group of purchase for resale customer): (1) the number of upstream LDC meters, (2) the number of retail GMG customers, and (3) the volume of gas sold to each group of purchase for resale customer.

GMG provided the required information in its TRADE SECRET Annual Automatic Adjustment Report (Docket No. G999-AA-15-612) at pages 4-5.

Great Plains

Great Plains has two PGA systems, the North District and the South District, which have separate true-up calculations.[8]

North District

Great Plains over-recovered its FYE15 total current gas costs by $129,970, or approximately 1.57 percent in its North District. Great Plains' North District over-recovered its demand costs by $45,631, or approximately 2.59 percent, and over-recovered its commodity costs (including penalty revenue of $39,804) by $84,339, or approximately 1.29 percent.

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[5] Department Review at pages 14-15.
[6] Department Review at page 17.
[7] December 22, 2011 ORDER AUTHORIZING NEW RETAIL SERVICE, Docket No. G022/M-11-804.
[8] As a result of the Commission's September 6, 2016 FINDINGS OF FACT, CONCLUSIONS, AND ORDER at pages 45 and 57, Docket No. G004/GR-15-879, Great Plains shall consolidate its two PGA systems beginning July 1, 2017.

Great Plains explained that, although weather was warmer than normal for the twelve months ending June 30, 2015, actual sales were higher than the estimated volumes used in the determination of the per Dth rates in the PGA.

The Department concluded that Great Plains' over-recovery of demand and commodity costs for the North District appears to be reasonable.

South District

Great Plains under-recovered its FYE15 total current gas costs by $330,858, or approximately 3.00 percent in its South District. Great Plains' South District over-recovered demand costs by $86,628, or approximately 4.96 percent, and under-recovered its commodity costs by $417,486, or approximately 4.50 percent.

The Department calculated that the weather was approximately 2.08 percent colder than normal for the winter for Great Plains' South District area.

The Department concluded that Great Plains' over-recovery of demand costs and under-recovery of commodity costs in the South District appear to be reasonable.

Great Plains Summary

The Department recommended that the Commission accept Great Plains' FYE15 true-ups, and allow Great Plains to implement its true-ups, as shown in DOC Attachments G6a and G6b of the Department's Review.

Interstate Gas

The Department stated:[9]

> In its December 8, 2014 *Order Approving Sale Subject to Conditions*, the Commission approved MERC's acquisition of Interstate Gas in Docket No. G001,G011/PA-14-107. Ordering Paragraph 4 required MERC to continue to maintain the Interstate Gas PGA for transitioned Interstate Gas ratepayers until MERC's next general rate case and, at that time, reconcile the two fuel supply systems into one. The sale was closed on April 30, 2015. During this true up period, Interstate Gas reported the required information and true up for the ten months July 2014 through April 2015 up to the time of the sale. After the sale, MERC-AL reported the required information and true up for the two months May and June 2015. Further, MERC-AL's true-up includes Interstate Gas' April 30, 2015 total under-recovery of $13,043.[10]

[9] Department Review at pages 21-22.
[10] See MERC-AL's true up report [Docket No. G011/AA-15-801], page 1 [of 3], line 7 and Interstate's AAA report [Docket No. G999/AA-15-612], Exhibit B, page 2.

Interstate Gas under-recovered its FYE15 total gas costs by $16,547, or approximately 0.21 percent, for a cumulative under-recovery of $13,043, or approximately 0.17 percent.[11]

Interstate Gas over-recovered its Assigned Demand costs by $11,329, or approximately 0.94 percent. The demand cost over-recovery includes interruptible penalty revenues of $3,996 and capacity-release revenues of $26,355, without which there would have been a demand cost under-recovery.[12]

Interstate Gas under-recovered Allocated Demand costs by $46,539, or approximately 16.67 percent, and over-recovered commodity costs by $18,662, or approximately 0.30 percent. Interstate Gas stated that the Allocated Demand costs were under-recovered primarily due to other winter reservation charges.[13] "During the middle of the winter, IPL was able to secure reasonably priced reservation contracts for the months of February and March 2015, but the cost factors were not included in the monthly PGA factors so the Allocated Demand costs were under-collected."[14]

The Department concluded that Interstate Gas' cost recovery appears to be reasonable. The Department recommended that the Commission accept Interstate Gas' FYE15 true-up filing as shown in DOC Attachment G7 of the Department's Review. Due to the sale to Minnesota Energy Resources, Interstate Gas will not be implementing true-up factors.[15]

MERC

MERC now has three PGA systems: MERC-NNG, MERC-Consolidated (MERC-CON), and MERC-Albert Lea (MERC-AL). FYE14 was the first year of truing up the costs of the two PGA systems; MERC-NNG and MERC-CON. Now, with the purchase of Interstate Gas' MN natural gas distribution system, and as a result of the Commission's December 8, 2014 *Order Approving Sale Subject to Conditions* (14-107 Order) in Docket No. G001,G011/PA-14-107, MERC has added the MERC-AL system.

MERC-NNG

MERC over-recovered its FYE15 total current gas costs by $2,743,525, or approximately 1.90 percent, on its NNG system. For the NNG system, MERC over-recovered demand costs by $9,108,591, or approximately 38.58 percent, and under-recovered commodity costs by $6,365,066, or approximately 5.28 percent.[16] The demand cost over-recovery and commodity cost under-recovery were "predominantly caused by the cost recovery of Bison and Northern Border Pipeline costs being shifted from the demand rate factor to the commodity rate factor per Docket No. G007,M-10-1166 and G011/M-10-1168 dated January 26, 2015."[17]

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[11] Department Review at page 22.
[12] Department Review at pages 22-23.
[13] Department Review at page 23.
[14] Interstate Gas' AAA Report, Exhibit L.
[15] Department Review at pages 23-24.
[16] Department Review at pages 24-26.
[17] Department Review at pages 26-27; MERC-NNG's AAA Report, page 3. Staff notes that the Order date is January 21 (not 26), 2015.

The Department concluded that MERC-NNG's over-recovery of demand costs and under-recovery of commodity costs on its NNG system appears reasonable, but suggested that MERC should address in its reply comments how the Company could achieve more accurate recovery of the Bison and Northern Border pipeline costs on a going-forward basis.[18]

The Department recommended that the Commission accept MERC-NNG's true-up filing and allow MERC-NNG to implement its true-up as shown in DOC Attachment G8 of the Department's Review.[19]

The Department also recommended "that MERC address in its reply comments how the Company could achieve more accurate recovery of the Bison and Northern Border pipeline costs on a going-forward basis."[20]

MERC-Consolidated (CON)

MERC under-recovered its FYE15 total current gas costs by $1,231,994, or approximately 3.91 percent on its Consolidated system. The Company over-recovered demand costs on its Consolidated system by $777,850, or approximately 23.40 percent, and under-recovered commodity costs on the system by $2,009,844, or approximately 7.14 percent. [21] "[I]n addition to mentioning capacity release and curtailment penalty revenues, MERC stated that the 'over collection of demand cost was caused by the actual sales being greater than projected sales and actual costs being less than projected costs.'"[22] The Department noted that this over-recovery again reflects recovery of the Bison and Northern Border pipeline costs as discussed above in the MERC-NNG section. MERC stated that the under-recovery of commodity costs "was predominantly caused by the difference in projected monthly gas costs compared to actual gas costs."[23]

The Department concluded that MERC-CON's over-recovery of demand costs and under-recovery of commodity costs appears to be reasonable.[24]

The Department recommended that the Commission accept MERC-Consolidated's true-up filing and allow MERC-Consolidated to implement its true-up as shown in Department Attachment G9 of the Department's Review.[25]

MERC-Albert Lea (AL)

As mentioned above, MERC purchased IPL's natural gas distribution system and operated the MERC-AL system for the last two months of FYE15. MERC under-recovered its total gas costs for the MERC AL system by $133,180, or approximately 27.03 percent, for the two months. The

[18] Department Review at pages 26-27.
[19] Department Review at pages 30-31.
[20] Department Review at page 31.
[21] Department Review at pages 27-28.
[22] Department Review at page 27; MERC-CON AAA Report, page 3.
[23] MERC-CON AAA Report, page 3; Department Review, page 28.
[24] Department Review at pages 27-28.
[25] Department Review at pages 30-31.

Company under-recovered its demand cost on the Albert Lea system by $13,507, or approximately 27.03 percent, and under-recovered commodity costs by $119,673, or approximately 31.01 percent. MERC stated that the demand cost under collection was predominantly caused by the actual sales being less than projected sales, and the under-recovery of commodity costs was predominantly caused by the difference in projected monthly gas costs compared to actual gas costs.[26]

The Department concluded that MERC-AL's under-recovery of demand and commodity costs appears to be reasonable.[27]

The Department recommended that the Commission accept MERC-AL's true-up filing and allow MERC-AL to implement its true-up as shown in Department Attachment G8a of the Department's Review.[28]

MERC Bison and Northern Border Pipeline Cost Recovery

As noted above, the primary reason given for the demand cost over-recovery and commodity cost under-recovery on MERC's NNG system was the cost recovery of Bison and Northern Border Pipeline costs being shifted from the demand rate factor to the commodity rate factor per Docket No. G007,M-10-1166 and G011/M-10-1168. The Department requested that MERC address how the Company could achieve more accurate recovery of the Bison and Northern Border pipeline costs on a going-forward basis.

In its July 11, 2016 Reply Comments, MERC explained that there was a timing issue of when the change was first implemented with the February 2015 monthly PGA and the filing of the annual true-up which reflected the approved shifting for the entire June through July AAA period. The time period in future PGA and AAA filings will be synchronized resulting in a more accurate recovery of these costs. MERC's explanation follows:

> MERC hopes this discrepancy will be alleviated going forward through synchronization of the time period used to recover the costs via the MERC-NNG PGA system monthly filings and the time period used in subsequent MERC-NNG PGA Annual Automatic Adjustment ("AAA") filings. As mentioned above, orders issued in Docket Nos. G007/M-10-1166 and G011/M-10-1168 approved shifting the future recovery of Bison and Northern Border Pipeline costs from the demand rate factor to the commodity rate factor effective with the February 2015 monthly PGA filing and approved shifting the recovery of the Bison and Northern Border Pipeline costs for the entire June through July AAA period in the upcoming AAA filing. The going-forward recovery of costs via the PGA and the "retroactive" shifting of costs for the entire true-up period created a one-time over-recovery of approximately $9,000,000 of demand costs and a similar one-time under-recovery of commodity costs. The time period used to recover the

[26] Department Review at page 28; MERC-AL AAA Report, page 3.
[27] Department Review at pages 28-29.
[28] Department Review at pages 30-31.

> Bison and Northern Border pipeline costs, via the commodity rate factor, will be the same time period in future PGA and AAA filings, resulting in a more accurate recovery of these costs.
>
> This issue with the timing of the recovery of the Bison and Northern Border pipeline costs does not similarly affect MERC-Consolidated. The Bison and Northern Border pipeline costs are not allocated to the MERC-Consolidated PGA system and therefore not recovered from MERC-Consolidated PGA system customers. The Bison and Northern Border pipeline costs are assigned only to the MERC-NNG PGA system and recovered only from MERC-NNG PGA system customers. The reasons for MERC's demand cost over-recovery on the Consolidated PGA, including capacity release and curtailment penalty revenues, and actual costs being less than projected, were addressed in MERC's filing and summarized in the Department's Comments and the over-recovery is not attributable to the change in allocation of Bison and Northern Border pipeline costs on MERC's NNG PGA.

In its October 21, 2016 Response Comments, the Department concluded that MERC provided a reasonable discussion regarding future recovery of Bison and Northern Border Pipeline costs. The Department stated that it "will continue to monitor this issue in future AAA filings to ensure that the shift in costs does not continue to result in large over- or under-recoveries."

CenterPoint Energy

CenterPoint Energy over-recovered its FYE15 current total gas costs by $8,548,615, or approximately 1.44 percent.[29] The Company over-recovered its demand costs including propane costs by $1,697,073, or approximately 2.15 percent, and over-recovered commodity costs by $6,851,543, or approximately 1.33 percent.[30] According to CenterPoint Energy, the demand-cost over-recovery resulted from weather that was about one percent colder than normal and firm sales that were about 10.8 million DT more than the weather-normalized sales used to calculate the demand recovery factor. Further, adjustments to demand from the "demand smoothing'[31] factor brought the demand cost recovery much closer to the demand costs incurred.[32] With regard to the commodity-cost over-recovery, CenterPoint Energy stated that "Commodity-cost recovery rates are based on estimated monthly purchases prior to the start of the month, based on the assumption of 'normal' weather. To the extent estimated purchases vary from actual purchases, an over or under recovery will occur."[33]

The Department recommended that the Commission:[34]

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[29] Department Review at page 31.
[30] Department Review at page 32.
[31] CenterPoint Energy has a Demand Adjustment Program, first approved as a pilot program in Docket No. G008/M-00-980, whereby it adds a monthly demand adjustment to its demand cost recovery rate charged to customers in order to provide a better matching of costs and recoveries within the true-up year.
[32] Department Review at page 32; CenterPoint Energy AAA Report, page 18.
[33] Department Review at pages 32-33; CenterPoint Energy AAA Report, page 18.
[34] Department Review at page 37.

- accept CenterPoint Energy's FYE15 true-up, Docket No. G008/AA-15-800; and
- allow CenterPoint Energy to implement its true-up, as shown in DOC Attachment G10 of the Department's Review.

Xcel Gas

Xcel Gas under-recovered FYE15 total current gas costs by $7,597,878, or approximately 2.24 percent.[35] Xcel Gas over-recovered Minnesota demand costs by $2,564,173, or approximately 5.56 percent and under-recovered commodity costs by $10,162,051, or about 3.47 percent.[36]

Xcel Gas has a monthly demand cost true-up mechanism. "This mechanism is designed to offset swings in revenue collection caused by deviations from the forecasted normal weather."[37] The mechanism helped minimize the demand cost over-recovery by crediting an additional $1,980,283 of demand costs to customers during the 2104-2015 heating season. Xcel Gas stated that without the mechanism its over-recovery of demand costs would have been approximately 9.85 percent.[38]

According to Xcel Gas, actual FYE15 sales were approximately 11.06 percent higher than forecasted sales in the monthly PGA, resulting in the over-recovery of demand costs.[39] Xcel Gas stated that the commodity cost under-recovery:[40]

> … is due to deviations between monthly forecasted price and actual wholesale commodity gas prices. The price deviations between monthly price estimates and actual unit cost were the result of price volatility in the wholesale natural gas commodity market. On an average unit basis, the under-recovery is approximately 1.4 cents per therm. Because customer consumption varies by class from month to month and price deviation varies from month to month, individual classes had varying results.

The Department concluded that Xcel Gas' demand cost over-recovery and its commodity cost under-recovery appear to be reasonable.[41]

The Department recommended that the Commission:[42]

- accept Xcel Gas' FYE15 true-up, Docket No. G002/AA-15-809; and
- allow Xcel Gas to implement its true-up, as shown in Department Attachment G11 of the Department Review.

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35 Department Review at page 38.
36 Department Review at page 39.
37 Ibid.
38 Department Review at page 39; Xcel Gas AAA Report, Attachment B, Sch. 3, page 3.
39 Ibid.
40 Xcel Gas' AAA Report at Attachment B, Schedule 3, pages 3-4; Department Review at page 39.
41 Department Review at pages 39-40.
42 Department Review at page 43.

Comparison between Minnesota local distribution companies (“LDCs”)

The Department’s Review provides cost and operating data for all of the rate regulated natural gas local distribution companies. (Please see pages 43 through 78 of the Department’s Review.)

One comparison ranks the companies according to the annual usage of an average residential customer and the size of the annual bill for an average residential customer.

The following table (Table G4) was copied from page 45 of the DOC Review.

Table G4: Average Annual Residential Bill and Average Use per Utility for the FYE15 Reporting Period

Utility	System	Average Usage Rankings[123]	Average Use[124] (Mcf)	Annual Bill Rankings	Total Annual Bill ($)	Average Cost per Mcf[125] ($)	Annual Customer Charges ($)
Greater Minnesota		3	87.0	8	$893.32	$10.27	$102.00
Great Plains	North	2	80.3	3	$721.88	$8.99	$78.00
	South	1	72.4	1	$594.18	$8.21	$78.00
MERC	CON	4	87.4	6	$803.35	$9.19	$114.82
	NNG	6	89.4	7	$862.99	$9.66	$114.82
IPL/MERC	AL[126]	7	91.4	2	$665.51	$7.28	$60.00
CenterPoint Energy		8	92.4	5	$759.21	$8.22	$108.45
Xcel Gas		5	89.0	4	$754.37	$8.48	$108.00

Similar to the last two years, residential customers of GMG had the highest average annual bill and customers of Great Plains’ South District had the lowest. Many factors contributed to the size of these average annual residential bills. The amount of gas used by an average residential customer is one factor. A second factor would be the company’s cost of gas, and a third would be the non-gas rates the company is allowed to charge. There are a number of other contributing factors such as mix of firm and interruptible customers, number of available pipeline systems, weather, and access to storage. See page 46 of the Department’s Review.

As can be seen in the following table, MERC’s NNG system had the highest average purchased gas cost and Greater Minnesota Gas’s system had the lowest average purchased gas cost.

The following table (Table G6) was copied from page 49 of the Department's Review.

Table G6: FYE15
Total System Gas Costs (Demand and Commodity)[130]

Utility	PGA Recovered ($/Dth)	Rank	Current-Period Actual incurred Gas Cost ($/Dth)	Rank	Actual Over/(Under) ($/Dth)	Percentage Over/(Under) Recovery
Greater Minnesota	$ 4.6343	3	$ 4.5895	1	$ 0.0448	0.98%
Great Plains						
North	$ 4.8474	5	$ 4.7726	3	$ 0.0748	1.57%
South	$ 4.5717	2	$ 4.7131	2	$ (0.1414)	(3.00%)
Interstate Gas	$ 4.8958	7	$ 4.9063	6	$ (0.0105)	(0.21%)
MERC						
CON	$ 5.0634	8	$ 5.2696	8	$ (0.2062)	(3.91%)
NNG	$ 5.7715	9	$ 5.6637	9	$ 0.1079	1.90%
AL	$ 3.7565	1	$ 5.1481	7	$ (1.3916)	(27.03%)
CenterPoint Energy	$ 4.8560	6	$ 4.7990	5	$ 0.0571	1.19%
Xcel Gas	$ 4.6901	4	$ 4.7975	4	$ (0.1074)	(2.24%)
MN Weighted Avg.	**$ 4.9068**		**$ 4.9039**		**$ 0.0029**	**0.06%**
MN Non-Weighted Avg.	**$ 4.7874**		**$ 4.9621**		**$(0.1747)**	**(3.52%)**

DOC Review of LDC Gas Purchasing Practices

In its August 11, 2014 Order, Docket No. G-999/AA-13-600, et al, the Commission requested that the Department include a review of gas purchasing practices in its review of future annual automatic adjustment reports.[43] The Department provided its analysis at pages 69 through 74 of its Review.

The Review included a list of the annual non-weighted average prices of the various types of gas purchases as follows:[44]

1) Monthly index-priced gas at $3.8080 per Mcf;
2) Daily spot-priced gas at $3.9195 per Mcf; and
3) Daily index-priced gas at $4.0673 per Mcf.

[43] August 11, 2014 ORDER ACCEPTING GAS UTILITIES' ANNUAL REPORTS AND 2012-2013 TRUE-UP PROPOSALS AND SETTING FURTHER REQUIREMENTS, Docket No. G-999/AA-13-600 et al, at Order Point 3.
[44] Department Review at page 70.

The Department looked at how much of each LDCs' gas purchases during the heating season consisted of each of these types of gas supply and provided the following table copied from page 71 of the Department's Review:

Table G20[193]: FYE15
Portfolio Composition for the Heating Season
(Components as a Percent of Actual Purchases)

Utility/System	All Gas Purchases	Index Gas (Monthly)	Index Gas (Daily)	Spot Gas (Monthly)	Spot Gas (Daily)	Fixed Gas
Greater Minnesota	100.00%	97.21%	2.79%	0.00%	0.00%	0.00%
Great Plains						
North	100.00%	74.34%	0.00%	0.00%	25.66%	0.00%
South	100.00%	50.99%	0.00%	0.00%	49.01%	0.00%
Interstate Gas	100.00%	82.20%	0.00%	0.00%	17.80%	0.00%
MERC						
Consolidated	100.00%	78.99%	2.68%	0.00%	18.33%	0.00%
NNG	100.00%	80.08%	12.66%	0.00%	7.25%	0.00%
CenterPoint Energy	100.00%	51.54%	19.71%	0.00%	0.30%	28.45%
Xcel Gas	100.00%	62.06%	31.58%	0.00%	6.35%	0.00%

The Department did not challenge the prudence of any of the natural gas utilities' purchasing practices.

Minnesota Gas Utilities' Hedging Practices

Three Minnesota LDCs have received Commission approval to recover the costs of financial hedging through the purchased gas adjustment, CenterPoint Energy, MERC and Xcel Gas. In Docket No. G999/AA-10-885, the Commission's April 3, 2012 Order required that in future initial Annual Automatic Adjustment reports, all regulated gas utilities must provide additional information on the embedded cost/benefit associated with physical hedges (non-storage price protections) used in the procurement of gas supplies.

In its August 11, 2014 Order, Docket No. G-999/AA-13-600 et al, the Commission requested the Department to include a review of gas cost hedging practices in its review of future annual automatic adjustment reports.[45] At pages 74 through 78 of its Review, the Department provided its review of Minnesota gas utilities' hedging practices and evaluated expectations against actual performance.

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[45] August 11, 2014 ORDER ACCEPTING GAS UTILITIES' ANNUAL REPORTS AND 2012-2013 TRUE-UP PROPOSALS AND SETTING FURTHER REQUIREMENTS, Docket No. G-999/AA-13-600 et al, at Order Point 3.

> Additionally, at its February 4, 2016 Commission Agenda meeting regarding CenterPoint Energy's hedging variance filing in Docket No. G008/M-15-912, the Commission expressed interest in taking a closer look at utility hedging practices given the current state of the natural gas market. On June 28, 2016, the Commission held a Planning Meeting to discuss hedging. A presentation was provided by the utilities that participate in hedging (CenterPoint, MERC, and Xcel).[46]

The Department stated that:[47]

> Weather and various supply issues play a significant role in the commodity price of natural gas, especially during the heating season of November through March. As previously discussed in Section 1.C. *Natural Gas Prices and Weather*, the 2014-2015 heating season was overall colder than normal but alternated on a monthly basis. Further, the natural gas prices steadily decreased during the entire reporting period. Some other supply issues during FYE15 included the gas storage inventory level, following a near record-low inventory at the end of March 2014, injections were above average from April 2014 through March 2015 due to increasing production and mild weather resulting in lower demand for natural gas and the lack of weather impacts on production (hurricanes).
>
> Based on the 2014-2015 heating season, the Department would expect that CPE, MERC, and Xcel Gas would experience no or minimal cost savings and/or gains on the hedge portion of their purchase portfolios…

The Department reviewed the performance of MERC's, CenterPoint Energy's and Xcel Gas's hedging programs against the expectation that they would experience no, or minimal, cost savings and/or gains on the hedge portion of their purchase portfolios.

According to the Department's Review, each of the three utilities experienced losses due to hedging during FYE15. The Department concluded that the utilities' hedging programs performed as expected. Specifically:

- MERC's hedges provided a financial loss in FYE15 mainly due to the lower prices experienced in the winter months except for December 2014. Since there were no external factors that caused a price spike, this outcome is to be expected. The Department concluded that MERC accomplished its intended purpose of providing reasonable price protection on a portion of its winter gas supplies, based on the information the company had at the time it executed its hedges.

- CenterPoint Energy's hedges provided a financial loss in FYE15 due to the lower prices experienced in the winter months; again, since there was no external factor causing prices to spike, this outcome is to be expected. The Department concluded that CenterPoint

[46] Department Review at page 74.
[47] Department Review at pages 74-75.

Energy accomplished its intended purpose of providing reasonable price protection on a portion of its winter gas supplies, based on the information the company had at the time it executed its hedges.

- Xcel Gas' hedges provided a financial loss in FYE15 due to the lower prices experienced in the winter months, which is to be expected as noted above. The Department concluded that Xcel Gas accomplished its intended purpose of providing reasonable price protection on a portion of its winter gas supplies, based on the information the company had at the time it executed its hedges.

The Department recommended that each utility that hedges (including physical and financial) continue to provide a post-mortem analysis, in a format similar to what was provided in this docket, in subsequent AAA filings.

Lost-and-Unaccounted For Gas (LUF)

The Department developed a comparison of LUF gas by utility using the formula from the U. S. Department of Transportation, Pipeline and Hazardous Material Safety Administration's Form 7100.1-1 to calculate the LUF percentages.[48]

The following table (Table G19) presents the Department's summary of LUF gas percentages for the period July 1, 2014 to June 30, 2015 for Minnesota jurisdictional volumes and is copied from page 66 of the Department's Review.

[48] The formula is as follows: [(purchased gas + produced gas) minus (customer use + utility use + appropriate adjustments)] divided by (purchased gas + produced gas) equals percent unaccounted.

Table G19[180]: FYE15
Lost-and-Unaccounted-For Gas

Utility/System	Revenue as a Percent of Total Gas Costs (%)
Greater Minnesota	0.80%
Great Plains	
North	1.09%
South	0.93%
MERC	
Consolidated	5.37%
NNG	(0.78%)
Interstate Gas/AL[181]	0.13%
CenterPoint Energy	1.15%
Xcel Gas	2.46%
MN Weighted Avg.	**1.50%**

[See the Department's Review at DOC Attachment G19 for detailed calculations.]

As shown in the above table, the LUF gas ranged from a negative 0.78 percent for MERC-NNG to a positive 5.37 percent for MERC-Consolidated.

A negative LUF number means that a utility, in effect, found gas. The MERC-NNG system reported negative lost gas during the reporting period, as the former MERC-PNG and MERC-NMU did during prior reporting periods.

In the FYE09 AAA Report, MERC investigated its negative LUF situation that occurred during the 2008-2009 true-up period. The Commission, in its November 14, 2013 Order in Docket No. G999/AA-12-756 (12-756 Order), found that MERC's persistent report of negative lost and unaccounted for gas may warrant further investigation. Further, the 12-756 Order[49] stated:

> In its 2013 annual automatic adjustment filing, if MERC again demonstrates a negative amount of lost and unaccounted for gas, the utility shall provide a detailed description and calculations explaining this phenomenon and showing the role of transportation customers and sales.

[49] See page 11, ordering paragraphs 15 and 18 of the Commission's November 14, 2013 *ORDER ACCEPTING GAS UTILITIES' AUTOMATIC ADJUSTMENT REPORTS AND TRUE-UP PROPOSALS, AND SETTING FURTHER REQUIREMENTS*, Docket No. G999/AA-12-756.

MERC did again demonstrate a negative amount of LUF gas in its 2013 annual automatic adjustment filing. In November of 2014, during the review of the FYE14 AAA reports, MERC informed the Department that it was continuing to investigate LUF. MERC found some errors and revised its calculation of LUF gas for the FYE14. This was discussed in the briefing papers for Docket No. G-999/AA-14-580.

In MERC-Consolidated's 2015 AAA Report, MERC stated the following about MERC-Consolidated's 5.37 percent LUF:

> When MERC submitted its 2014 AAA Report in Docket No. G999/AA/14-580, MERC indicated that it was continuing to evaluate the LUF calculations. Throughout the end of 2014 and up to the filing date of this report, MERC examined its LUF calculation methodology, which involved tracing of the AAA Report gas accounting procedures MERC has in place. In its effort to validate its procedures MERC discovered the Deer River PGA assignment error and the GLGT Pipeline metering error but did not find evidence indicating that MERC's significant transport load was affecting the LUF calculations. The LUF calculations submitted concurrently with this report in Utility Information Request No. 10, issued by the Department, account for the adjustment of volumes associated with the Deer River PGA assignment error and the GLGT Pipeline metering error for the current AAA period. MERC will continue to work with the Department and Commission to ensure it AAA LUF reporting methodology is as accurate as possible.[50]

In MERC-NNG's 2015 AAA Report, MERC stated:

> When MERC submitted its 2014 AAA Report in Docket No. G999/AA/14-580, MERC indicated that it was continuing to evaluate the LUF calculations. Throughout the end of 2014 and up to the filing date of this report, MERC Report gas accounting procedures MERC has in place. In its effort to validate its procedures MERC discovered the Deer River PGA assignment error and the farm tap reporting error but did not find evidence indicating that MERC's significant transport load was affecting the LUF calculations. The LUF calculations submitted concurrently with this report in Utility Information Request No. 10, issued by the Department, account for the adjustment of volumes associated with the Deer River PGA assignment error and the farm tap reporting error for the current AAA period. In addition, MERC has recently discovered a gas cost reporting procedure that impacts the LUF calculation. Specifically, MERC's monthly imbalance for each PGA system (the difference between the monthly quantity of gas delivered to MERC's distribution system and the monthly quantity of gas used by MERC customers) is reported on a one month lag. This reporting lag creates a monthly variance between purchase gas volumes and customer use volumes. MERC's response to Utility Information

[50] MERC-Consolidated's 2015 Annual Automatic Adjustment Report at pages 13-14; Department Review at pages 66-67.

> Request No. 10 includes an LUF calculation identifying the impact of this reporting lag. MERC will continue to work with the Department and Commission to ensure it AAA LUF reporting methodology is as accurate as possible.[51]

The Department stated that it reviewed MERC's adjustments for the FYE14 correction of errors and that it has no further concerns. The Department also reviewed MERC's response to DOC Information Request No. 10 and concluded that MERC's "Imbalance to Storage Lag" adjustments are reasonable. The Department concluded "that MERC's FYE15 LUF percentages are reasonable along with the other utilities."[52]

Reporting of Contractor Main Strikes and Meter Testing

In its October 11, 2012, Order Accepting Progress Reports and Meter Testing Plans in Docket No. G999/AA-10-885, the Commission required all gas utility companies to file, as part of their annual AAA reports, a schedule reflecting the contractor main strikes during the corresponding annual period billings to at-fault contractors. The Commission required that the schedules reflect the date, party involved, repair cost amount, and gas lost amount for each incident. The Commission also required the utilities to file any updates regarding meter testing within an annual period in their AAA reports starting in 2012.

Contractor Main Strike Reports

The Department stated that all of the gas utilities filed the required information on contractor main strikes. The Department further stated:[53]

> The Department reviewed the reports. In its FYE14 AAA Report, the Department stated that the reports would be more meaningful if the total gas cost charged for main strikes during the period reconciled to the amount in the true up and also if the reports provide the allocation of the gas costs credited to each class in its true up. All of the utilities except MERC totaled the gas cost charged for main strikes and indicated how the contractor main strike revenue was treated in the true up. The Department requests that MERC provide in its Reply Comments for each of its PGA systems, the total gas cost charged for main strikes and indicate how the contractor main strike revenue was treated in its FYE15 true ups.

MERC did not address this in its July 11, 2016 Reply Comments and the Department did not further address it in its October 21, 2016 Response Comments.

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51 MERC-NNG 2015 Annual Automatic Adjustment Report at pages 13-14.
52 Department Review at page 67.
53 Department Review at page 68.

Meter Testing Updates

The Department stated that all of the gas utilities filed the required information with their AAA Reports. The Department provides a short summary at pages 68-69 of its Review.

Concerns with Curtailment Non-Compliance

During the review of the 2013-2014 AAA Reports, "the Department raised certain questions regarding the effectiveness of imposing curtailment penalties to curb the unauthorized consumption of gas by interruptible customers after a utility has alerted them to a gas curtailment period."[54]

In its August 24, 2015 ORDER ACCEPTING GAS UTILITIES' ANNUAL AUTOMATIC ADJUSTMENT REPORTS AND 2013-2014 TRUE-UP PROPOSALS AND SETTING FURTHER REQUIREMENTS, Docket No. G999/AA-14-580, the Commission required all Minnesota regulated natural gas utilities to provide, for the next three AAA reports (2014-2015, 2015-2016, and 2016-2017), the following information on unauthorized gas use for each customer that did not comply with a called interruption during the heating season:

A. The volume of gas consumed by the non-compliant customer during the curtailment period.

B. The specific commodity rate charged for the unauthorized gas used and how that rate is determined.

C. The financial penalty, if any, assessed by the company to the customer, including calculations in determining the penalty or penalties.

D. A discussion about utility communication with each customer regarding non-compliance with interruptions (excluding invoices).

This year, the Department reported the following in its Review:

GMG – On page 5 of its AAA Report, GMG stated that it "did not have any non-compliant interruptible customers that engaged in unauthorized use during a curtailment period; hence GMG has nothing to report." The Department concluded that GMG complied with the reporting requirements in Docket 14-580.[55]

Great Plains – On page 6 of its AAA Report, Great Plains stated "see Exhibit F for Great Plains' curtailment activities." On its Exhibit F, Great Plains explained that it had one curtailment period during the 2014-2015 heating season and all five customers that were requested to curtail gas

[54] August 24, 2015 ORDER ACCEPTING GAS UTILITIES' ANNUAL AUTOMATIC ADJUSTMENT REPORTS AND 2013-2014 TRUE-UP PROPOSALS AND SETTING FURTHER REQUIREMENTS, Docket No. G999/AA-14-580, at page 7.

[55] Department Review at page 16.

usage complied with the request. The Department concluded that Great Plains complied with the reporting requirements in Docket No. 14-580.[56]

Interstate Gas – Interstate Gas reported the required information by non-compliant customer in its AAA Report, Exhibit A. The Department concluded that Interstate Gas complied with the reporting requirements in Docket No. 14-580.[57]

MERC – On pages 14-15 of MERC-CON's AAA Report, MERC stated that there was one occurrence of unauthorized gas use by MERC-CON customers during the time period. MERC reported the required information for that customer and stated that MERC had a discussion with the customer once curtailment penalties were assessed. The Department concluded that MERC complied with the reporting requirements in Docket No. 14-580 on unauthorized gas use.[58]

CenterPoint Energy – On pages 15-16 of its AAA Report, CenterPoint Energy stated that "As shown above in Exhibit 10, the 2014-2015 heating season included a very small number of interruptible customers that used unauthorized gas, and the amount of unauthorized gas used was also extremely small." Regarding the utility's communication with each customer on the noncompliance with interruptions, CenterPoint Energy stated:

> The Company intends to contact the customers prior to the beginning of the next heating season to discuss their unauthorized gas usage in the heating season and reiterate the importance of their being able to curtail their natural gas usage when called upon. For the 2015-2016 gas year and beyond, the Company will ensure that these contacts are made promptly after any curtailment event.
>
> In addition, in early September, the Company will be sending its annual Curtailment Contact Information form to all interruptible customers, where it asks customers to update their curtailment contact information and also emphasizes the importance of interruptible customers being able to curtail their gas usage when called upon.

The Department concluded that CenterPoint Energy complied with the reporting requirements in Docket No. 14-580.[59]

Xcel Gas - Xcel Gas provided information on this requirement in its Attachment G, pages 11-13, and in Attachment G, Schedule 8 of its AAA Report. Xcel Gas stated on page 12:

> With only four control days in the 2014-2015 heating season, we feel that there is not sufficient data to determine if the higher penalty of $5/therm has been effective in deterring customers from using unauthorized gas. Further studies in subsequent years are necessary to determine whether or not customer behavior

[56] Department Review at page 21.
[57] Department Review at pages 23-24.
[58] Department Review at page 30.
[59] Department Review at page 37.

has been sufficiently influenced. Additionally, specific communications with non-compliant customers should also have a positive impact on compliance.

The Department concluded that Xcel Gas complied with the Commission's Order in Docket No. 14-580 on unauthorized gas use.[60]

Commission Decision Alternatives

All Commission Regulated Natural Gas Utilities

1. Accept the FYE15 annual reports as filed by the gas utilities as being complete as to Minnesota Rules 7825.2390 through 7825.2920. (See staff briefing papers, p. 1)

2. Require each utility that hedges (including physical and financial) to continue to provide a post-mortem analysis, in a format similar to what was provided in this docket, in subsequent AAA filings. (See staff briefing papers, p. 15)

Greater Minnesota Gas (GMG)

3. Greater Minnesota Gas (GMG)
   (See staff briefing papers, p. 4)

   a. Accept GMG's FYE15 true up as filed in Docket No. G022/AA-15-797; and

   b. Allow GMG to implement its true up, as shown in DOC Attachment G5 of the Department's July 1, 2016, *Review of the 2014-2015 Annual Automatic Adjustment Reports*.

Great Plains

4. Great Plains
   (See staff briefing papers, pp. 4-5)

   a. Accept Great Plains' FYE15 true-ups, Docket No. G004/AA-15-794; and

   b. Allow Great Plains to implement its true ups, as shown in DOC Attachments G6a and G6b of the Department's July 1, 2016, *Review of the 2014-2015 Annual Automatic Adjustment Reports*

[60] Department Review at pages 42-43.

Interstate Gas

5. Interstate Gas
   (See staff briefing papers, p. 6)

   a. Accept Interstate Gas' FYE15 true-up filing in Docket No. G001/AA-15-796 as shown in DOC Attachment G7 of the Department's July 1, 2016, *Review of the 2014-2015 Annual Automatic Adjustment Reports*.

Minnesota Energy Resources Corporation (MERC)

6. Minnesota Energy Resources Corporation (MERC)
   (See staff briefing papers, pp. 6-9)

   a. Accept MERC- NNG's FYE15 true-up filing in Docket No. G011/AA-15-803; and

   b. Allow MERC-NNG to implement its true-up as shown in DOC Attachment G8 of the Department's July 1, 2016, *Review of the 2014-2015 Annual Automatic Adjustment Reports*; and

   c. Accept MERC-Consolidated's FYE15 true-up filing in Docket No. G011/AA-15-802; and

   d. Allow MERC-Consolidated to implement its true-up as shown in DOC Attachment G9 of the Department's July 1, 2016, *Review of the 2014-2015 Annual Automatic Adjustment Reports*; and

   e. Accept MERC-Albert Lea's FYE15 true-up filing in Docket No. G011/AA-15-801; and

   f. Allow MERC-Albert Lea to implement its true-up as shown in DOC Attachment G8a of the Department's July 1, 2016, *Review of the 2014-2015 Annual Automatic Adjustment Reports*.

CenterPoint Energy

7. CenterPoint Energy
   (See staff briefing papers, pp. 9-10)

   a. Accept CenterPoint Energy's FYE15 true up, Docket No. G008/AA-15-800; and

   b. Allow CenterPoint Energy to implement its true up, as shown in DOC Attachment G10 of the Department's July 1, 2016, *Review of the 2014-2015 Annual Automatic Adjustment Reports*.

Xcel Gas

8. Xcel Gas
   (See staff briefing papers, pp. 10-11)

   a. Accept Xcel Gas' FYE15 true-up, Docket No. G002/AA-15-809; and

   b. Allow Xcel Gas to implement its true up, as shown in DOC Attachment G11 of the Department's July 1, 2016, *Review of the 2014-2015 Annual Automatic Adjustment Reports*.