

May 1, 2019

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

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G002/M-19-200

Dear Mr. Wolf:

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

Petition of Northern States Power Company, d/b/a Xcel Energy, for Approval of a Modification to the Natural Gas State Energy Policy (SEP) Tariff, Updated SEP Rate Factor, and SEP Compliance Filing.

The Petition was filed on March 1, 2019 by:

Lisa R. Peterson
Manager, Regulatory Analysis
Xcel Energy Service, Inc.
414 Nicollet Mall – 7th Floor
Minneapolis, Minnesota 55401

The Department recommends that the Minnesota Public Utilities Commission **approve Xcel Energy's proposed SEP adjustment factor**. The Department is available to answer any questions the Commission may have.

Sincerely,

/s/ DANIEL W. BECKETT
Rates Analyst

DWB/ja
Attachment



Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce

Division of Energy Resources

Docket No. G002/M-19-200

I. BACKGROUND

In its April 6, 2004 *Order Approving State Policy Rate Rider, as Modified* in Docket No. E,G002/M-03-1544 (03-1544 Order), the Minnesota Public Utilities Commission (Commission) approved Northern States Power Company, d/b/a Xcel Energy's (Xcel Gas, Xcel Energy, or the Company), State Energy Policy Rider (SEP Rider). The Commission also directed Xcel Energy to submit an annual filing by March 1 of each year detailing the following information:

- a. electric-related Reliability Administrator (RA) and State building guidelines (SBG) expenses, Xcel Energy-Prairie Island settlement expenses, and costs associated with the independent study of intermittent resources;
- b. revenues obtained from the approved electric SEP Rider adjustment;
- c. proposed revised electric SEP Rider rate, together with a listing and description of all assumptions used to calculate the proposed revised electric SEP Rider rate;
- d. natural-gas-related RA and SBG expenses;
- e. revenues obtained from the approved gas SEP Rider rate; and
- f. proposed revised gas SEP Rider rate, together with a listing and description of all assumptions used to calculate the proposed revised gas SEP Rider rate.

Since its 03-1544 Order, the Commission has issued determinations concerning the Company's SEP Rider in 15 separate proceedings.¹

¹ The specific proceedings are:

- Docket No. E002/M-05-359;
- Docket No. E002/M-06-364;
- Docket No. E,G002/M-07-283;
- Docket No. E,G002/M-08-261;
- Docket No. E,G002/M-09-201;
- Docket No. E,G002/M-10-210;
- Docket No. E,G002/M-11-175;
- Docket No. E,G002/M-12-185;
- Docket No. E,G002/M-13-161;
- Docket No. E002/M-13-959;
- Docket No. E,G002/M-14-185;
- Docket No. G002/M-15-194;
- Docket No. G002/M-16-206;

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- In Docket No. E,G002/M-08-261, under then-new legislation reflected in Minn. Stat. 216B.1637, Xcel requested recovery of costs associated with the replacement of natural gas cast iron pipe through the SEP rate factor. The Commission's November 25, 2008 Order approved Xcel's request.
- The Commission's June 3, 2013 Order, in Docket No. E,G002/M-13-161, discontinued the cast iron replacement project reporting requirement as construction was completed.
- With the Commission's December 11, 2013 Order in Docket No. E002/M-13-959, the electric SEP Rider charge was discontinued, effective January 1, 2014, in conjunction with the transfer of cost recovery into electric base rates.²

Most recently, the Commission's December 21, 2018 *Order* in Docket No. G002/M-18-184 required the Company to file future SEP rider filings using an historical test period.

II. SUMMARY OF FILING

On March 1, 2019, Xcel Energy filed its *Petition for Approval of a Modification to the Natural Gas SEP Tariff, Updated SEP Rate Factor, and SEP Compliance Filing* (Petition) in the present docket to revise the Company's natural gas SEP Rider rates, with a proposed effective date of July 1, 2019. The Company's proposal would lower the natural gas SEP Rider rate from the 2018 rate of \$0.001576 per therm, which was approved in Docket No. G002/M-18-184, to \$0.001287 per therm.

In compliance with Order Point No. 4 of the Commission's December 21, 2018 *Order* in Docket No. G002/M-18-184, the Company proposed to implement the updated natural gas SEP rate factor on July 1, 2019, which would be after the conclusion of the July 1 2018 – June 30, 2019 SEP test period.

The Company identified two types of expenses currently included in the SEP Rider for recovery:

1. Greenhouse Gas Infrastructure (GHGI) Costs (*i.e.*, Cast Iron Replacement Project); and
2. Assessment for Department Regional and National Duties (ADRND).

- Docket No. G002/M-17-174; and
- Docket No. G002/M-18-184.

² Docket No. E002/GR-13-868.

Xcel's petition summarized the forecasted revenue requirement associated with each of these costs, along with the tracker true-up balance and the factor calculation.³ An excerpt from the Company's petition, shown in Table 1 below, provides the revenue requirement by type of expense:

Table 1: Gas SEP Costs and Rate Factor

	2019 Proposed
(GHGI) Cast Iron (net) ⁴	\$1,378,590
ADRND	\$7,089
Tracker Carryover	\$34,863
<i>Total Revenue Requirement</i>	<i>\$1,301,800</i>
Forecasted Therm Sales: (July 1, 2018 – June 30, 2019)	1,011,582,014
<i>Proposed SEP Factor (\$/therm)</i>	<i>\$0.001287</i>

Xcel Energy proposed to continue to show the natural gas SEP Rider rate in a separate line item on customer bills entitled "Resource Adjustment." In addition, as discussed in Section II.C.6 below, Xcel Energy proposed to notify its customers of the updated Resource Adjustment with a message on customer bills.

II. DEPARTMENT ANALYSIS

A. COMPLIANCE WITH THE IMPLEMENTATION PROCESS APPROVED IN DOCKET NO. E,G002/M-03-1544

According to the implementation process approved by the Commission in the 03-1544 Order, Xcel Energy is to submit a compliance filing by each March 1 containing the actual and forecasted information needed to determine any true-up amount to be recovered from or returned to ratepayers as a result of the operation of the SEP Rider. The Company is also required to submit a miscellaneous filing to establish new electric and gas SEP Rider rates for the subsequent fiscal year, incorporating amounts anticipated to be incurred and including any true-up amounts from the operation of the SEP Rider during the current year. The Department reviewed the Petition and concludes that Xcel Energy submitted the information required by the implementation process approved in the 2003 proceeding.

³ See Petition, Table 2, page 7.

⁴ \$1,378,590 = \$1,450,900 - \$72,310 (O&M credit).

B. COMPLIANCE WITH THE COMMISSION'S ORDER IN DOCKET NO. G-002/M-17-174

The Commission's August 24, 2017 Order required the Company to provide a comparison of budgeted (forecasted) and actual monthly costs, as well as a discussion of the reasons for the deviations, in its future SEP rider filings. Xcel stated in its filing that ADRND costs were \$18,672 lower than budgeted due to the 2018 forecast projecting higher amounts based on historical billing trends, which were quarterly. Actual billing only occurred in the months of March and December. The Company also stated that its cast iron replacement costs were \$5,169 less than forecasted, mainly due to lower property tax rates when compared with those that were forecasted. Additionally, the Company's revenue collections were \$139,003 higher than forecasted based on higher actual sales levels across all classes. Attachment C to Xcel's Petition provides monthly comparisons of forecasted and actual costs and revenues. The Department reviewed the Petition and concludes that Xcel Energy submitted the information required by the Commission's August 24, 2017 Order, and that the deviations between forecasted and actual costs appear reasonable.

C. COMPLIANCE WITH THE COMMISSION'S ORDER IN DOCKET NO. E,G002/M-18-184

1. Use of Historical Test Period for Setting SEP Rider Rate

In its previous SEP filing, the Commission determined that Xcel should use an historical test period for the purposes of setting rates in the Company's SEP Rider as this would avoid the issue of Xcel having to comply with federal rules requiring proration of accumulated deferred income taxes (ADIT). In the Petition, Xcel stated that it intends to implement its SEP rate factor on July 1, 2019, which would be immediately after the conclusion of the test period ending on June 30, 2019. Because the rate would be in effect no sooner than July 1, 2019, proration of ADIT is not necessary.

2. Xcel's Proposed Rate Factor for 2018-2019

The following table compares the figures for the 2017-2018 period that were approved in Docket No. G002/M-18-184 and the numbers the Company is proposing in the instant Petition.

Xcel's Proposed Rate Factor

Gas	18-184	19-200	Difference
ADRND	\$27,030	\$7,089	(\$19,941)
Cast Iron	\$1,567,571	\$1,450,900	(\$116,671)
Cast Iron O&M Credit	(\$72,310)	(\$72,310)	\$0
Carryover	\$8,483	\$34,863	\$26,380
Test Year Carryover		(\$118,742)	(\$118,742)
Revenue Requirement	\$1,530,774	\$1,301,800	(\$228,974)
Xcel's Estimated Therms	971,043,548	1,011,582,014	40,538,466
Factor	\$0.001576	\$0.001287	(\$0.000029)

The Department notes that in Xcel's previous SEP proceeding, Docket No. G002/M-18-184, the approved SEP factor was calculated based on the sales reported in the Company's jurisdictional report in Docket No. E,G999/PR-17-4 on May 1, 2017 because Xcel appeared to under-estimate retail sales.⁵ In that filing, Xcel reported retail gas sales for calendar year 2016 as being 97,104,355 Dkt. In its 2017 jurisdictional report filed in Docket No. E,G999/PR-18-4, the Company reported total retail sales figures of 99,469,703 Dkt, which is approximately a 2.4 percent increase year-over-year. The estimated therms in this docket are a combination of actual and forecasted numbers, six months of each. The projected sales, in therms, are 1,011,582,014, which would be approximately a 1.7% increase over the Company's 2017 reported sales. The Company's 2018 actual retail sales will be reported in its jurisdictional report to be filed on May 1, 2019, the same day these comments are due. While the Department concludes that Xcel's estimated therm sales appears to be reasonable, the Department will confirm the appropriateness of using 1,011,582,014 therms to calculate the 2019 SEP factor after reviewing Xcel's 2018 jurisdictional report.

C. REASONABLENESS OF THE PROPOSED NATURAL GAS SEP RIDER RATE

1. Energy-Related Mandates

Xcel Energy proposed to include costs associated with the legislative mandate for the ADRND.⁶ Xcel noted that the 2017 Minnesota legislative session extended the ADRND through June 30, 2018. The provided tracker in Attachment D1 to the Company's Petition includes the final true-up of costs incurred prior to the June 30, 2018 extension. Additionally, the Company does not forecast any ADRND costs beyond the expiration date of the governing statute. The Department concludes that Xcel's proposed treatment of the ADRND is reasonable.

⁵ Under-estimating sales results in an inappropriately high rider factor.

⁶ Minnesota Statute § 216B.62, subd. 3b.

2. Cast Iron Replacement Project

In its November 25, 2008 *Order Accepting and Modifying Petition Regarding State Energy Policy Rider* in Docket No. E,G002/M-08-261 (November 25 Order), the Commission approved recovery of costs associated with Xcel Energy's replacement of the remaining cast iron gas pipe on the Company's system through the SEP Rider. Total revenue requirements for the Cast Iron Replacement Project are shown in Attachment D2 to Xcel Energy's March 1, 2019 Petition. As required by the November 25 Order, Xcel Energy included a corresponding operation and maintenance (O&M) credit for savings associated with the Cast Iron Replacement Project of \$72,310 for the 2019 SEP period. As required by the Commission's September 23, 2010 Order in Xcel Energy's 2010 SEP Rider filing,⁷ the Company's Attachment D3 details Xcel Energy's O&M credit, which reflects the outcome of the Company's last natural gas rate case (Docket No. G002/GR-09-1153).

The Department concludes that including the costs for the Cast Iron Replacement Project in the SEP tracker account as proposed by Xcel is reasonable.

3. Carbon Offsets

In Xcel Energy's 2008 SEP Rider proceeding, the Commission required that the Company:

- Report, in all future SEP Rider filings, the sale of any carbon offset or credit for decreased greenhouse gas emissions associated with gas pipe replacement under the Project; and
- Credit the gas SEP tracker account with any proceeds received by the Company from the sale of each carbon offset or credit associated with the Project.

In its Petition, Xcel Energy stated that the Company has not sold any carbon offsets or credits for greenhouse gas emissions associated with natural gas cast iron pipe replacement under the SEP Rider to date; consequently, there are no carbon offsets and/or credits to report, or proceeds to credit to the SEP tracker account. As Xcel Energy noted in its previous SEP Rider filings, the Company began annual reporting to the U.S. Environmental Protection Agency (EPA) of greenhouse gas emissions for all types of natural gas pipe material in September 2012.⁸ Attachment H of Xcel Energy's Petition contains the summary of their EPA report. The Department concludes that Xcel Energy's statements regarding carbon offsets and credits comply with the Commission's requirements on this issue as established in the Company's 2008 SEP Rider proceeding.

⁷ Docket No. E,G002/M-10-210.

⁸ 40 C.F.R. Part 98, Subparts A and W.

4. Relationship to Rate Cases

Attachment F to Xcel Energy's Petition is the Bridge Schedule, which shows that the Company did not include SEP revenues or expenses in its last natural gas rate case (Docket No. G002/GR-09-1153).

The Department confirmed Xcel Energy's assertion that the Company's proposed SEP rate factor includes only incremental costs not currently recovered elsewhere in rates.

5. Rate Calculation

Table 2 below summarizes Xcel Energy's calculation of its proposed natural gas SEP Rider rate.

Table 2: Proposed Natural Gas SEP Rider Rate

	Approved 2017-2018	Proposed 2018-2019	\$ Change	% Change
ADRND	\$27,030	\$7,089	(\$19,941)	(73.77%)
Cast Iron Pipe Costs	\$1,567,571	\$1,450,900	(\$116,671)	(7.44%)
Cast Iron O&M Credit ⁹	(\$72,310)	(\$72,310)	\$0	
Tracker True-up	\$8,483	\$34,863	\$26,380	310.97%
Test Year Carryover	N/A	(\$118,742)	(\$118,742)	
Revenue Requirement	\$1,530,774	\$1,301,800	(\$228,974)	(14.95%)
Therm Sales Forecast ¹⁰	971,043,548	1,011,582,014	40,538,466	4.17%
Factor per therm	\$0.001576	\$0.001287	(\$0.000029)	(1.84%)

As shown in Table 2, Xcel Energy proposed to decrease its natural gas SEP Rider rate by 1.84 percent. Table 3 below shows the Company's historical SEP Rider rates. The Department notes that, with the exception of 2015 where a correction to a previous error that resulted in an amount of revenues going unreported, the proposed 2019 Rider rate is the lowest it has been over the previous six years.

⁹ Xcel Energy notes in footnote 2 of Attachment D3 of its Petition that the O&M credit approved for 2013 will not change going forward since all replacement work has been completed.

¹⁰ 2018-2019 Forecast includes 6 months of actuals and 6 months of forecast.

Table 3: Natural Gas SEP Rider Rates

Year	Rate per Therm
Proposed 2019	\$0.001287
2018	\$0.001576
2017	\$0.002103
2016	\$0.001368
2015	\$0.000724
2014	\$0.002238
2013	\$0.002736

6. Customer Notice

The Department notes that the customer notice proposed by Xcel Energy includes outdated language reflecting the inclusion of the costs associated with the State building guidelines in the SEP Rider. The Department proposes the following modifications to reflect the purpose of the ADRND costs:

We have updated the Resource Adjustment line item on your bill to reflect changes in the State Energy Policy (SEP) portion of the Resource Adjustment, which recovers the costs for cast iron pipe replacement and to support ~~State energy efficiency and conservation policy~~ Minnesota's interests in energy decisions made at the regional and national levels. The natural gas SEP portion of the Resource Adjustment decreased to \$0.001287 per therm.

The Department is open to further refinements to the above language changes.

III. RECOMMENDATION

The Department's review of the Company's Petition confirms that it fulfills the Commission's reporting requirements contained in the following Orders:

- *Order Approving State Energy Policy Rider, as Modified* in Docket No. E,G002/M-03-1544, dated April 6, 2004;
- *Order Approving Modification of the Natural Gas State Energy Policy Tariff Rate, E,G-002/M-14-185 and E,G-002/M-17-174;*
- *Order Accepting Petition as a Compliance Filing, Setting SEP Rate Factor* in Docket No. G002/M-18-184, dated December 21, 2018; *and*
- *Order Accepting and Modifying Petition Regarding State Energy Policy Rider* in Docket No. E,G002/M-08-261, dated November 25, 2008.

The Department recommends that the Commission:

- Approve the Xcel's proposed 2018-2019 natural gas SEP adjustment factor of \$0.001287 effective July 1, 2019; and
- Approve the Company's proposed customer notice, with the modifications noted above, and adjusted to incorporate the updated adjustment factor.

/ja