COMMERCE DEPARTMENT

June 14, 2019

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

RE: **Response Comments of the Minnesota Commerce Department, Division of Energy Resources**
Docket No. G999/AA-18-374

Dear Mr. Wolf:

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

Review of the 2017-2018 Annual Automatic Adjustment (AAA) Reports and Natural Gas Utilities' 2017-2018 Purchased Gas Adjustment (PGA) True-Up Filings.

Specifically, the Department responds to Reply Comments from the following utilities:

- Great Plains Natural Gas Co., filed May 6, 2019;
- Minnesota Energy Resources Corporation, filed May 6, 2019;
- CenterPoint Energy, filed with an extension on May 10, 2019; and
- Northern States Power Company d/b/a Xcel Energy – Gas Utility, filed May 6, 2019.

The Department's Response Comments contain revisions to the original recommendations included in its Review of the 2017-2018 Annual Automatic Adjustment Report filed on April 25, 2019. The Department recommends that the Minnesota Public Utilities Commission (Commission) adopt its recommendations, as discussed in greater detail herein.

The Department is available to answer any questions that the Commission may have.

Sincerely,

/s/ ANGELA BYRNE
Financial Analyst

AB/ja
Attachment

Before the Minnesota Public Utilities Commission

Response Comments of the Minnesota Commerce Department
Division of Energy Resources

Docket No. G999/AA-18-374

I. BACKGROUND

On April 25, 2019, the Minnesota Commerce Department, Division of Energy Resources (Department) filed its Review of the 2017-2018 Annual Automatic Adjustment Reports (AAA Report) with the Minnesota Public Utilities Commission (Commission) in the instant docket. In its *AAA Report*, the Department requested that the following gas utilities address specific issues in Reply Comments:

- Great Plains Natural Gas Company (Great Plains);
- Minnesota Energy Resources Corporation (MERC);
- CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas (CenterPoint Energy or CPE); and
- Northern States Power Company d/b/a Xcel Energy (Xcel Gas).

On May 6, 2019 Great Plains, submitted its *Reply Comments* acknowledging the Department's recommendation for the Commission to require all regulated gas utilities to demonstrate whether prior-period adjustments made in the Annual True-Up filing are subject to the Billing Error Rule. Great Plains stated that it has not determined how this requirement would affect Great Plains' future Annual True-Up filings.

On May 6, 2019, MERC submitted its *Reply Comments*, providing additional information requested by the Department regarding clarifying items related to MERC's Lost and Unaccounted for Gas (LUF) and its Schedule Q, as well as a discussion regarding a single third party that caused a significant number of contractor strikes during the reporting period.

On May 6, 2019, Xcel Gas submitted its *Reply Comments*, providing additional information requested by the Department regarding Xcel Gas's 2018-2019 unauthorized gas use, as well as applicable rules for, and a reconciliation of, the High Bridge Adjustment.

On May 13, 2019, CenterPoint Energy submitted its *Reply Comments*, providing the additional information requested by the Department about the treatment of CPE's gas losses due to damages to its system, as well as a discussion regarding one specific party that caused more strikes than any other third party.

Finally, MERC, CPE, and Xcel Gas provided information in response to Order Point 4 in the Commission's February 27, 2019 *Order Accepting Gas Utilities' Annual Automatic Adjustment Reports and 2016-2017 True-Up Proposals and Setting Further Requirements* (FYE17 Order), in Docket No. G999/AA-17-493 (Docket 17-493), requiring certain hedging information for the previous five reporting years. The Department's analysis on this issue is addressed in Section II.E. below.

II. DEPARTMENT RESPONSE TO UTILITIES' REPLY COMMENTS

A. RESPONSE TO GREAT PLAINS

In its *AAA Report*, the Department recommended that, going forward, the Commission require all regulated gas utilities to demonstrate whether each prior-period adjustment made in an Annual True-Up filing is subject to the Billing Error Rule. Great Plains stated that it "acknowledges the Department's recommendation but has not determined how this requirement would affect Great Plains' future Annual True-Up filings."

The Department appreciations Great Plains' acknowledgement and wishes to clarify its intention with this recommendation. There should be no immediate effect on any of the regulated utilities unless there is a non-standard prior period adjustment in its true-up filing. Adjustments for the over- or under-recovery of the previous reporting period's true-up factor is standard and expected in the annual filings.[1]

If the Department's recommendation is adopted by the Commission, it would require certain information to be provided in the utility's initial Annual Report only if there is a non-standard adjustment for allocation errors, refunds, surcharges, or any other kind of transaction not provided for in the Minnesota Rules for Annual True-Ups and Reports. In addition to the High Bridge Adjustment issue the Department is addressing with Xcel Gas, in the past, several utilities have used the Annual True-Up as a place to correct many different types of errors, but not all have been appropriately included and/or executed in the Annual True-Up.

The Department apologizes for any confusion the initial recommendation may have caused, but appreciates the utilities' acknowledgement and cooperation in the future.

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[1] For example, on page 4 of its *Reply Comments,* MERC pointed out that its Report "includes the calculation of PGA revenues for the prior periods that were billed on and after July 1, 2017, in order to capture all of the PGA revenue for the 12-month period of the current AAA Report. While the underlying cancel-rebills may be subject to the Natural Gas Billing Errors Rule, the adjustment calculated in Schedule M is not." The Department agrees with MERC's statement and highlights it in response to Great Plains, to clarify the intention of this recommendation.

B. RESPONSE TO MERC

In its *AAA Report*, the Department recommended that MERC conduct its investigation into negative LUF on both its NNG and Consolidated PGA systems. On page 2 of its *Reply Comments*, MERC agreed to conduct its investigation on both its NNG and Consolidated PGA systems and report the results in its 2018-2019 AAA Report. The Department appreciates MERC's responsiveness and looks forward to reviewing the results in the FYE19 AAA Report.

At the Department's request, MERC submitted a discussion regarding the treatment of recovery of gas losses due to contractor main strikes, as well as a revised Schedule Q that included totals. The Department appreciates this additional information and requests that MERC provide both of these items in its initial AAA filings going forward.

Additionally, in its *AAA Report*, the Department recommended that MERC provide a discussion in *Reply Comments* regarding the party that caused more strikes on its system than any other party. The Department requested that the discussion contain, but not be limited to, whether the level of strikes by this party is typical and any action MERC has taken to reduce strikes caused by this party.

MERC stated that the party identified as having been billed for the largest number of line hits was not an excavator but rather a locating contractor, which was assessed charges for mislocates resulting in damage and gas losses.[2] MERC also stated that the level of mislocates has been relatively consistent since 2015, ranging from 36 to 44 mislocates per reporting period. In addition to charging the contractor for damages, MERC provided a list of additional steps it takes to minimize mislocates:

- MERC's regional supervisor and/or manager will reach out to the locator to discuss specific incidents;
- MERC will audit the employee who made the mistake to determine if it appears to be an isolated incident;
- the locating service sometimes completes an internal audit and upon request, has shared the results of such audits with MERC;
- the Minnesota Office of Pipeline Safety has completed audits of completed locates by the individual who caused the incident;
- MERC holds periodic meetings with the locating service to discuss incidents and corrective actions;
- MERC has attended some of the contractor's employee training sessions to emphasize the importance of proper locates of gas facilities; and

[2] MERC's *Reply Comments*, Page 3.

- the locating service's contract includes a penalty and an incentive clause as a way to drive improved performance.

The Department appreciates this additional information and is satisfied with MERC's reply regarding these issues.

As stated above, please see Section II.E. for the Department's analysis regarding the hedging Ordering Point from Docket 17-493.

C. RESPONSE TO CENTERPOINT ENERGY

1. CenterPoint Energy's Response to Department Requests

In its *AAA Report*, the Department recommended that CenterPoint Energy discuss the treatment of its gas losses due to contractor damages. In its *Reply Comments*, CPE stated,

> When a party is determined "at fault" for facility damage that includes the loss of gas, they are subject to **<u>all</u>** charges required to restore the facility. …
>
> When payment is received, the portion of the payment related to gas loss is credited to the Company's current-year over/under gas cost account and passed back to ratepayers in the annual Gas Cost Recovery (GCR), or true-up, factor. By crediting the payments to the current year over/under gas cost account, overall gas costs are reduced for firm customers. As shown in table 7 of the 2017-18 AAA Report, $28,853 were credited to firm ratepayers during the 2017-18 gas year.

Additionally, in its *AAA Report*, the Department recommended that CPE provide a discussion in *Reply Comments* regarding the party that caused the most strikes on its system than any other party. The Department requested that the discussion contain, but not be limited to, whether the level of strikes by this party is typical and any action CPE has taken to reduce strikes caused by this party.

CenterPoint Energy clarified that the identified third party is a contracted line-locator, not an excavator, or necessarily the party that damaged the system. That said, CPE stated,

> CenterPoint Energy meets with all of its line-locating contractors, including the noted contractor weekly throughout the construction season, working to emphasize the importance of their role in

> providing safe and reliable gas service. In those weekly meetings CNP reviews the root causes of ALL underground damages and determines if any corrective action is needed. Those meetings focus on discussing issues while they are small instead of trying to work through larger issues later. The Company also discusses the results of our recently developed locate auditing program, and partners with line-locators to improve performance.
>
> Overall, the Company experienced slightly more mislocates in 2018 over the three previous years. (See Schedule 8 in CenterPoint Energy's Service Quality report for 2018 – Docket No. G008/M-19-304, attached as Exhibit 1). The number of mislocates attributable to this particular contractor is also somewhat higher than average, but in line with the overall trend for 2018. The Company points out that the contractor noted performed over 113,000 locates, heavily in urban areas, in the AAA time period (July 2017-June 2018).

The Department appreciates this additional information regarding the damage gas losses due to mislocates and the steps CenterPoint Energy takes to minimize this type of damage to its system. The Department will continue to monitor contractor main strikes as a part of the AAA Report on all utilities, but is satisfied with CPE's reply for this year's reporting period.

As stated above, please see Section II.E. for the Department's analysis regarding the hedging Ordering Point from Docket 17-493.

2. *Additional Information Provided by CenterPoint Energy*

In its *Reply Comments*, CenterPoint Energy provided additional information regarding a demand cost issue, following the letter it filed on April 24, 2019 in this instant docket. In its 2017 Demand Entitlement filing,[3] CPE included 20,000 units of Viking capacity as winter-only capacity, when the contract was for twelve months. As a result, $224,226 of unrecovered demand costs were included in the FYE18 true-up. In FYE19, the under-recovered demand costs amounted to $437,060, which the company anticipates to recover in the true-up factor that will be implemented on September 1, 2019.

[3] Docket No. G008/M-17-533, filed November 1, 2017.

CenterPoint Energy concluded,[4]

> …that no accounting entries need to be made, nor changes to filed schedules beyond the update to Exhibit A in both noted Demand Entitlement filings. See Minn. Rule 7825.2700, subp. 7. The reported Over/Under for Small Firm and Large General Service is correct and includes the amounts discussed, and no prior-period adjustment is required.

Based on the additional information provided by CenterPoint Energy in its *Reply Comments*, the Department updates its recommendations for the Commission from its initial-filed *AAA Report* submitted on April 25, 2019. The Department recommends that the Commission withhold its decision on CPE's true-up, pending resolution of this demand cost issue in CenterPoint Energy's 2017 and 2018 Demand Entitlements, Docket Nos. G008/M-17-533 and G008/M-18-462, respectively.

D. RESPONSE TO XCEL GAS

In its *AAA Report*, the Department requested that Xcel Gas, as the only utility with significant unauthorized gas use during the 2017-2018 heating season, provide a list of unauthorized gas use during the 2018-2019 heating season. The Department also requested a discussion detailing all barriers to further reducing unauthorized usage and suggested possible solutions.

In its *Reply Comments*, Xcel Gas provided revised unauthorized gas use volumes for 2018-2019 heating season, as the only curtailments the Company called were during the severe weather event on which it already reported.[5] Xcel Gas stated that, after billing adjustments, 2018-2019 unauthorized gas use was 15,390 dekatherms, revised from 17,688.93 dekatherms reported previously. Below is an updated Table G24a from the Department's *AAA Report*.

Table G24a
Xcel Gas Historical Unauthorized Gas Volumes

Heating Season	Unauthorized Dkt
2013-2014	126,589.68
2014-2015	19,141.63
2015-2016	-
2016-2017	126.11
2017-2018	28,915.68
2018-2019	15,389.82

[4] CenterPoint Energy's *Reply Comments*, Page 6.
[5] Page 11 of Xcel Gas's *Comments* filed on April 15, 2019 in Docket No. E,G999/CI-19-160.

Regarding barriers to further reducing unauthorized usage and possible solutions, Xcel Gas stated,[6]

> Typical reasons for customers not curtailing their natural gas use include equipment malfunctions such as failure of regulator valves, burners, or system controls. At times the back-up fuel systems do not operate properly, most common is diesel fuel gelling up and not flowing. There are occasionally site personnel issues with lack of personnel available to support the alternative fuel operation. Another reason is the deliberate choice not to curtail. Customers may run out of back up fuel as well.
>
> As the Company noted in our March 22, 2019 Supplement filing on unauthorized gas use, we have direct contact with customers regarding their responsibility to curtail when called to do so, the financial impact of unauthorized gas use during curtailment, and the impact of unauthorized gas use on the capacity constraints of the system. Currently the tariffed penalty amount for unauthorized gas usage is significant at $5 per therm.
>
> The Company will continue to monitor the curtailment behavior of our customers and communicate with them regarding unauthorized gas use during curtailment as a breach of service under the interruptible tariffs. A possible solution the Company may consider in the future is to propose a lower interruptible discount for those customers who historically have not fully curtailed when called to do so.

This discussion provided by Xcel Gas is essentially the same as other discussions provided when the Department inquires about high unauthorized gas use on Xcel Gas's system. The Department has provided extensive comments on the issue of unauthorized gas for all Minnesota regulated natural gas utilities in response to the Commission's investigation into the 2018-2019 Polar Vortex event, so those efforts will not be repeated here. Please see the Department's *Comments* filed on May 20, 2019 in Docket No. E,G999/CI-19-160.

1. *High Bridge Adjustment*

The Department requested that Xcel Gas provide additional information regarding the reallocation of costs related to gas volumes used at the High Bridge plant.

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[6] Xcel Gas's *Reply Comments*, Page 4.

First, the Department requested that Xcel Gas reconcile the difference between the $3.7 million and the $5.2 million amounts referenced in Xcel Gas's AAA Report for the Minnesota jurisdiction. Table 3 in Xcel Gas's Reply Comments show that the $3.7 million is the total of misallocated gas costs from 2013-2017 reporting years, and the $5.2 million is the total of misallocated gas costs, including $1.5 million of costs in the 2017-2018 reporting year.

Second, the Department requested an analysis regarding the application of certain Minnesota Rules to the reallocation, as well as the amounts reallocated each year.

In its *Reply Comments*, Xcel Gas stated,[7]

> When the Company discovered the misallocation of costs between gas and electric customers, we immediately took steps to correct it. We noted this in our 2018 Annual Automatic of Charges Report – Gas, Docket No. G999/AA-18-374, and in the Fuel Clause Adjustment Report for October 2018, Docket No. E002/AA-18-622:
>
> > An issue was identified at the High Bridge plant whereby SCADA meter data was being provided to NNG as opposed to more accurate volumes from the MV90 meter. This resulted in a total credit to gas commodity expenses of $6M over 5 AAA years (2013-2018). An entry for this amount was booked during month end-close. The $6M will be recovered through the electric FCA over the next 12 months beginning in October.
>
> The Company included a credit in the 2017-2018 Natural Gas True-Up Report, and the corresponding true-up factors including the credit are effective on natural gas customer bills for the timeframe September 1, 2018, through August 31, 2019. A corresponding expense is being recovered from electric customers through the fuel clause for the timeframe October 1, 2018, through September 30, 2019.

[7] Page 6.

The Department is troubled that Xcel Gas did not bring the High Bridge allocation issue to the Commission in a separate filing. The magnitude of this $6 million[8] error warrants more information and attention than a minimal "compliance" to Docket E,G999/AA-97-1212 in the back of Xcel Gas's Annual Report and a brief mention in its October 2018 FCA.[9] Xcel Gas thought $4.8 million of manufactured clean-up costs were significant enough to bring forth a full deferred accounting request to the Commission,[10] but somehow a $6 million allocation error across operating utilities did not warrant its own filing.

Additionally, in its analysis regarding the applicability of the Billing Error Rules, Xcel Gas does not acknowledge the severity of its mistake. In arguing that the Billing Error Rules do not apply, Xcel Gas stated,

> To be clear, neither the misallocation of costs nor its correction provides any benefit to the Company. We simply passed certain gas costs on to the wrong customer base, and we are now in the process of passing those costs back to the correct customers. We do not believe the misallocation is a billing error under either Minn. Rule 7820.3800 or 7820.4000. Subpart 1 of each of those rules defines the type of errors to which they apply: "When a customer has been overcharged or undercharged as a result of incorrect reading of the meter, incorrect application of rate schedule, incorrect connection of the meter, application of an incorrect multiplier or constant or other similar reasons[.]" In other words, the billing error rules apply only to issues with a particular customer or set of customers' meters or bills themselves. [Footnote Omitted] This situation is neither. Instead, this issue relates to the underlying calculation of fuel charges due from all customers.
>
> Additionally, application of the billing rules to this situation would limit our ability to correct the misallocation and ensure that both gas and electric customers pay for the actual costs of the gas used

[8] Note that $6 million is for the total Minnesota Company, which includes Minnesota, North Dakota and South Dakota jurisdictions.
[9] Docket No. E002/AA-18-622, Page 10 and Attachment 6. The entire narrative provided in Xcel Electric's October 2018 FCA stated, "There is one unusual item exceeding the $500,000 threshold for this reporting month. We are providing this information pursuant to the Commission's Order item 30 in the 2008-2009 and 2009-2010 AAA filings (Docket Nos. E999/AA-09-961 and E999/AA-10-884). The Order states 'Xcel shall provide footnotes in future monthly FCA filings and future AAA filings to explain unusual adjustments of $500,000 and higher on a going forward basis.' Attachment 6, page 1, fulfills this compliance reporting requirement." Attachment 6 was one sparse page at the end of a 97-page standard filing.
[10] Docket No. G002/M-17-894.

> to serve them. … We believe the Company's actions better align with good policy, as they ensure that both gas and electric customers pay for the actual costs of the gas used to serve them.

Xcel Gas's assessment of this situation as "We simply passed certain gas costs on to the wrong customer base" is, frankly, alarming. Utilities are expected to maintain their equipment, be able to issue an accurate bill, and correctly calculate the monthly automatic adjustments, since ratepayers have almost no control over billing accuracy.[11] Xcel Gas failed to provide accurate information to NNG, and neither Xcel Gas nor Xcel Electric caught the error for several years. Mistakes are rarely intentional, and the Department works with all Minnesota regulated utilities to offer fair and reasonable resolutions for the Commission's consideration. However, Xcel Gas and Xcel Electric's actions have attempted to circumvent Commission authority to even consider, let alone make, a policy call in this scenario.

When something goes wrong, utilities are expected to be transparent; to name but a few examples, the Department and Commission Staff receive immediate notifications for large outages and weather events, the utilities have specific requirements in the Billing Error Rules to separately identify significant refunds and surcharges, and every single change to the utilities' tariffs requires Commission approval. The fact that the Commission has not contemplated or anticipated every scenario for which to have a Rule does not absolve a regulated utility of its responsibility for reasonably-accurate billing and transparency.

Xcel Gas included minimal information in its Gas Annual Report on a large refund that has a lower inherent risk to ratepayers, yet included no information in the Electric AAA regarding a surcharge to ratepayers. The correction emerged from Xcel Gas's error, and this lopsided information is not consistent with the up-front and transparent approach expected of a regulated utility when correcting a significant error impacting ratepayers.

Further, relative accuracy in billing of fuel costs is essential, since fuel costs are generally passed through directly to ratepayers. Utilities should be allowed to recover reasonable and prudent fuel costs from ratepayers, but it is not reasonable for a utility, in this instance Xcel Gas and Xcel Electric, to use the annual true-up filings to attempt to correct a significant error with almost no accountability for it. Such carelessness and lack of transparency in informing the Commission are unacceptable and point to the lack of direct incentive for the utilities to manage and monitor fuel costs, which is part of the reason why Minnesota regulated electric utilities now operate under Fuel Clause Adjustment (FCA) reform, where electric utilities are expected to have more accountability for FCA rates.

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[11] Situations related to self-read meters or access to meters can complicate accurate billing, but generally, ratepayers do not participate in the utility billing process.

That said, the Department agrees with Xcel Gas that the Billing Error Rules 7825.3800 and 7825.4000 do not apply in this situation, and that this is indeed a policy call. But the principles behind the Billing Error Rules are informative on how to address this situation. The Rules purposefully favor ratepayers more than utilities by allowing refunds of corrected amounts for the previous three years, but only provide for surcharges for corrected amounts for one year. Likewise, the threshold for direct refunds begins at an average of $1 per customer, but the threshold for direct surcharges begins at $10 per customer.

Additionally, previous Billing Error Rule variance filings by Xcel Gas and Xcel Electric provide guidance:

- In Docket No. E,G002/M-16-347, two meters on a duplex were connected incorrectly and charged to the opposite unit for which usage applied. Xcel requested a variance to extend refunds to two customers beyond the three years provided for in the Rules, yet did not request an extension to surcharge the undercharged customer for more than a year.[12]
- In Docket No. E002/M-15-881, four meters in a four-plex were incorrectly installed, leading to two customers being over-charged and two customers being under-charged. Xcel Electric requested a variance to extend refunds to the two over-charged customers, while only surcharging the under-charged customers by a year or less.[13]
- Xcel Gas and Xcel Electric have not requested variances to surcharge customers beyond one year in any of the following Billing Error Rule filings where customer meters were switched with a neighboring premise, resulting in a customer being under-charged for their service:
    - Docket No. E,G002/M-14-74
    - Docket No. E002/M-13-438
    - Docket No. E002/M-12-861

Through these filings, Xcel Gas and Xcel Electric have demonstrated that they understand the importance of making customers whole, even if it means inequitable recovery for itself.

The Department concludes that Xcel's behavior in response to discovering the High Bridge allocation error is unacceptable. Rather than filing a separate petition, Xcel Gas and Xcel Electric slipped ratepayers' refunds and surcharges into the annual true-ups to be applied over the subsequent 12 months, further complicating the generational mismatch of fuel costs for both gas and electric ratepayers.

[12] Xcel's initial *Petition*, filed April 22, 2016, Page 5.
[13] Xcel's initial *Petition*, filed October 1, 2015, Page 4, Footnote 1.

Minnesota Rule 7825.2920, Subp. 3. Commission Action provides legal support for the Commission to consider remedy. It states, in part,

> Subp. 3. **Commission action.** The commission, on complaint or on its own motion, and after appropriate investigation, notice, and hearing, may issue an order to fix at current levels, discontinue, or modify an automatic adjustment provision for an individual utility.

Based on Xcel Gas and Xcel Electric's , and on the discussion above, the Department recommends that the Commission disallow Xcel Electric's surcharge and require Xcel Electric to refund the entire surcharge amount of $5,181,931 to electric ratepayers. At a minimum, the Commission should disallow the prior period surcharges of $3,669,040, to be consistent with previous Billing Error Rule variances.

Xcel Gas ratepayers subsidized Xcel Electric ratepayers since FYE14 due to Xcel Gas's error in providing metering data to NNG. Therefore, interest should be calculated and refunded on the $3,669,040 that was held from Xcel Gas ratepayers for longer than a year. Minnesota Rule 7825.2920 states, in part,

> Subp. 2. **Errors.** Errors made in adjustment must be refunded by check or credits to bills to the consumer in an amount not to exceed the amount of the error plus interest computed at the prime rate upon the order of the commission if (1) the order is served within 90 days after the receipt of the filing defined in part 1825.2900 or 7825.2910 or at the end of the next major rate proceeding, whichever is later, and (2) the amount of the error is greater than five percent of the corrected adjustment charge.

The Department recommends that Xcel Gas calculate interest at the Prime Rate on the prior period adjustment portion of the allocation error, or $3,669,040, and include the calculated interest as a credit in its 2019 AAA True-Up due September 1, 2019.

Since the fuel cost portion of the refund to Xcel Gas customers is nearing relative completion through true-up rates that apply until August 31, 2019, the Department recommends that the Commission allow the Xcel Gas refund to continue as is, despite the customer generational issues.

Finally, Xcel filed this same information in its Reply Comments in the Electric AAA, as requested in this instant docket, on May 6, 2019. Resolution of Xcel Gas's High Bridge misallocation issue impacts both the Xcel Electric AAA and the Xcel Gas AAA. Therefore, the Department recommends that this issue be resolved prior to, or concurrent with, final Commission action on the Electric AAA.

As stated above, please see Section II.E for the Department's analysis regarding the hedging Ordering Point from Docket 17-493.

E. MERC, CENTERPOINT, AND XCEL GAS'S RESPONSE TO HEDGING ORDER POINT IN DOCKET NO. G999/AA-17-493

In Order Point 4 of the FYE17 Order in the previous AAA Report, Docket 17-493, the Commission required MERC, CenterPoint Energy, and Xcel Gas to provide, in their reply comments for the 2017-2018 reporting year and the five previous reporting years, the following information:

- The annual cost of each hedging tool used both in real dollars and as a percent of their actual incurred gas costs;
- A comparison of the hedging tool cost to that if the utility would have purchased the gas using the actual 1st of the month index pricing or any other cost comparison the companies believe would be helpful in consultation with the Department;
- A nationally recognized index of gas price volatility for each of the years along with an explanation of the index used; and
- A discussion of the particular company-specific trends in using hedging tools and how that has informed their strategy moving forward.

The Department notes that the overall goal of hedging is to use appropriate strategies to minimize the risk of cost increases for a given level of reduced volatility. A hedge is essentially an insurance policy that, for a fee, protects utility ratepayers against a specific, unfavorable event during the term of the policy. In this instance, unfavorable events are unexpected and/or dramatic increases in the market price of natural gas on portions of the utilities' winter portfolios.

In heating seasons with severely colder-than-normal weather, like the Polar Vortexes of FYE14 and FYE19, utilities will typically see gains on the hedges they executed on portions of their supply portfolios. Gains are usually a good thing in business operations, however there is usually a bigger downside to this scenario; annual gas costs are typically higher for ratepayers than in normal heating seasons, since the unhedged portions of the supply portfolios are not protected from spikes in price due to high demand. To continue the insurance example, it is like receiving a large check from one's homeowner's insurance to replace the roof after a tornado. Yes, the insurance policy finally "paid off" by covering financial losses to replace the roof; however, it means that roof collapsed on the house in the first place.

Hedging of gas prices is meant to reduce the risk of catastrophic increases in gas costs, not to reduce gas prices in general. Keeping that goal in mind, the Department addresses each of the Commission's requirements separately below.

1. *The Annual Cost of Each Hedging Tool Used Both in Real Dollars and as a Percent of the Actual Incurred Gas Costs*

MERC provided Attachment B to its *Reply Comments*, which detailed its hedging gains (positive figures) and net costs (negative figures) since FYE14.

Table 1: MERC Historical Hedging (Costs)/Gains

Year	Real $	Sales	% of Sales
FYE18	$(1,613,470)	$93,735,805	1.72%
FYE17	$(1,006,570)	$69,887,102	1.44%
FYE16	$(4,947,540)	$62,694,044	7.89%
FYE15	$(3,732,140)	$108,775,623	3.43%
FYE14	$2,778,210	$157,982,358	1.76%

While MERC's hedging programs lost money in most recent heating seasons, it is important to take those numbers in context with overall natural gas prices. Even though larger losses are experienced in warmer winters, or in years when gas prices are low and/or stable, the overall savings to ratepayers with lower total gas costs are realized in the unhedged portion of MERC's supply portfolio. For example, while FYE16 saw the biggest losses on hedging in dollars ($4,947,540) and percentage (7.89 percent), the total cost of gas commodity for MERC was the lowest ($62.7 million) in this historical period. Whereas in FYE18, the percent of losses was far lower (1.72 percent), but overall gas commodity costs were almost 50 percent higher ($93,735,805) than in FYE16.

A similar situation can be seen for CenterPoint Energy and Xcel Gas below.

Table 2: CenterPoint Energy Historical Hedging (Costs)/Gains

Year	Real $	Sales	% of Sales
FYE18	$8,284,195	$488,019,840	1.70%
FYE17	$(7,194,462)	$379,245,444	1.90%
FYE16	$(15,595,632)	$304,074,770	5.13%
FYE15	$(2,079,919)	$514,412,099	0.40%
FYE14	$20,045,595	$829,315,662	2.42%

CPE experienced the highest hedging costs in dollars and percentage in FYE16, however overall gas costs were the lowest of any other year during this period. And while CenterPoint Energy did well with its hedges in FYE14 by earning over $20 million in gains, gas prices were double that of other heating seasons, and nearly double in additional seasons.

Table 3: Xcel Gas Historical Hedging (Costs)/Gains

Year	Real $	Sales	% of Sales
FYE18[14]	$(359,287)	$226,926,737	0.16%
FYE17	$(1,102,532)	$202,972,529	0.54%
FYE16	$(4,679,112)	$160,868,283	2.83%
FYE15	$(3,320,557)	$289,910,496	1.13%
FYE14	$8,171,840	$438,254,092	1.90%

Here again, Xcel Gas experienced the largest hedging costs in a year where overall natural gas prices were at their lowest (FYE16), while experiencing more than double overall natural gas costs in a year with large hedging gains (FYE14).

While there is correlation in the more extreme weather and price scenarios, there is not a direct correlation between hedging gains or losses and a utility's overall gas costs. This result occurs because hedging is designed to reduce the price volatility of a designated portion of a utility's winter gas portfolio, not necessarily to reduce total gas costs or to beat market prices.

2. *A Comparison of the Hedging Tool Costs to that if the Utility Would Have Purchased the Gas Using the Actual 1st of the Month Index Pricing or any other Cost Comparison the Companies Believe Would Be Helpful in Consultation with the Department*

Below is a comparison of each utility's gas costs with hedging versus if they had purchased all gas volumes at the first of the month (FOM). The tables are created from the data provided by the utilities, but in a uniform manner for a more apples-to-apples comparison.

[14] The Real $ and % of Sales figures were labeled as Trade Secret in Xcel Gas's AAA Report, Attachment G, Page 5, Table 2, as well as in Table 1 on page 2 Xcel Gas's *Reply Comments* filed May 6, 2019. The Department received email confirmation from Xcel Gas on May 21, 2019 that this information can be presented as public, now that the FYE19 heating season is complete.

Table 4: MERC

Year	Hedged Gas Costs	FOM Index	$ Over/(Under) Market	% Over/(Under) Market
2017-2018	$ 93,735,805	$ 92,122,335	$ 1,613,470	1.75%
2016-2017	$ 69,887,102	$ 68,880,532	$ 1,006,570	1.46%
2015-2016	$ 62,694,044	$ 57,746,504	$ 4,947,540	8.57%
2014-2015	$ 108,775,623	$ 105,043,483	$ 3,732,140	3.55%
2013-2014	$ 157,982,358	$ 160,760,568	$ (2,778,210)	(1.73)%

Table 5: CenterPoint Energy[15]

Year	Hedged Gas Costs	FOM Index	$ Over/(Under) Market	% Over/(Under) Market
2017-2018	$ 69,905,835	$ 78,190,030	$ (8,284,195)	(10.59)%
2016-2017	$ 3,348,044	$ 86,153,582	$ 7,194,462	8.35%
2015-2016	$ 5,489,554	$ 59,893,922	$ 15,595,632	26.04%
2014-2015	$ 10,949,638	$ 108,869,719	$ 2,079,919	1.91%
2013-2014	$ 7,610,332	$ 97,655,927	$ (20,045,595)	(20.53)%

Table 6: Xcel Gas

Year	Hedged Gas Costs	FOM Index	$ Over/(Under) Market	% Over/(Under) Market
2017-2018	$ 227,286,024	$ 226,926,737	$ 359,287	0.16%
2016-2017	$ 204,075,061	$ 202,972,529	$ 1,102,532	0.54%
2015-2016	$ 165,547,394	$ 160,868,283	$ 4,679,111	2.91%
2014-2015	$ 293,231,053	$ 289,910,496	$ 3,320,557	1.15%
2013-2014	$ 430,082,253	$ 438,254,092	$ (8,171,839)	(1.86)%

The historical figures provided by the utilities above show gas costs under FOM Index market prices (gains) in colder than normal years like FYE14, and gas costs greater than FOM Index market prices (losses) in normal and warmer-than-normal years like FYE16 and FYE17. These

[15] CenterPoint Energy provided the cost comparison on the hedged portion of its portfolio only; the Hedged Gas Costs and FOM Index columns are not total annual gas cost figures. This information does not affect the $ Over/(Under) Market column, but does inflate the % Over/(Under) Market percentages above those of MERC and Xcel Gas.

patterns indicate to the Department that the utilities' hedging strategies are generally working as intended.

3. A Nationally Recognized Index of Gas Price Volatility for Each of the Years along with an Explanation of the Index Used

None of the three responding utilities knew of a nationally recognized index of gas price volatility. However, each utility offered additional company-specific information to provide context regarding how each manages price volatility.

MERC stated,[16]

> …[MERC] has calculated the volatility of winter prices with and without hedging in place and compared to first-of-month Ventura index pricing. MERC's hedging program has reduced volatility in winter prices by an average of 11 percent over the November 2012-Feburary 2019 period, compared to purchasing practices without hedging. When comparing the relative price volatility under the Company's hedging as compared to the Northern Natural Gas Ventura first-of-month index pricing, MERC's cost of gas (with hedging) was 28 percent less volatile over the November 2013-February 2019 period than monthly index.

CenterPoint Energy stated,

CenterPoint Energy Volatility: NNG Ventura Index v. WACOG[17]

12 mos Ending	Ventura Index	CPE WACOG	Winter	Ventura Index	CPE WACOG
Mar-18	70%	31%	2017-2018	74%	26%
Mar-17	68%	41%	2016-2017	56%	30%
Mar-16	34%	22%	2015-2016	28%	5%
Mar-15	58%	34%	2014-2015	59%	23%
Mar-14	71%	52%	2013-2014	48%	40%
Mar-13	40%	36%	2012-2013	12%	10%

> … The measurement that the Company has provided in its AAA report annually, which includes history back to the 2008-2009 Heating season[,] uses a 'nationally recognized index of gas price'

[16] MERC's *Reply Comments*, Page 5.
[17] Weighted average cost of gas.

> in the NYMEX Ventura data to estimate a volatility comparison. CenterPoint Energy is not aware of an outside source available to confirm the Company's estimates.

Xcel Gas stated,

> Volatility over a period of time can be calculated for any natural gas trading location for which a first of month or daily spot index price is published. Northern Natural Gas (NNG) Ventura is one of several locations where NSPM purchases gas. Table 2 below shows historical volatility at the NNG Ventura location compared to NSPM residential cost of gas for winter months during the heating seasons 2012-2013 through 2017-2018. Historical volatility per heating season is calculated as the standard deviation of month-to-month percentage changes in prices multiplied by the square root of sample prices. This data shows that NSPM cost of gas has been more stable than the index in each of the past six heating seasons when hedging instruments and storage have been utilized through the Company's Price Volatility Mitigation Plan.

Xcel Table 2: Minnesota Volatility Comparison

Hedge Year	NNG-Ventura FOM	NSPM Residential Cost of Gas
2012-2013	12.92%	8.25%
2013-2014	49.68%	24.27%
2014-2015	60.44%	23.27%
2015-2016	28.71%	13.89%
2016-2017	57.42%	22.46%
2017-2018	77.35%	22.15%

Each of the hedging utilities reduced price volatility on a portion of their winter natural gas supply portfolios, which is the intended outcome of natural gas hedging practices.

4. *A Discussion of the Particular Company-Specific Trends in Using Hedging Tools and How that Has Informed their Strategy Moving Forward*

Regarding trends in hedging tools, the three responding gas utilities did not necessarily identify any specific trends that they are watching, but they did shed light on how they evolve their hedging programs over time to accommodate changing market conditions, risk profiles, new/different available software programs, et cetera.

CenterPoint Energy described its annual Gas Procurement Plan,[18] which was most recently filed on August 3, 2018 in Docket No. G008/M-15-914.

> In its annual Gas Procurement Plan, the Company reviews all its planning assumptions and updates hedging plans according to its collective experience, analysis of gas futures prices and gas supply portfolio products (including types of hedge products), and advice from partners who provide recommendations in terms of hedge timing decisions and review of competitive bids. The Plan provides a review of prior-year hedging results and insights gained, and extensive detail about strategies employed to manage risk.
> …
> In 2012, Company [sic] began using Risked Revenue to provide decision making guidance regarding appropriate timing of entering into the gas price hedge products established in its Plan.
> …
> Company [sic] believes the use of the portfolio optimization software and third-party expert for hedge timing decision making is a best practice that has improved the effectiveness of its gas price hedging process and provides the best cost gas supply portfolio with price protection against sever gas cost fly-ups that would adversely affect its customers' bills.

In its *Reply Comments*, regarding company-specific trends in the hedging tools it uses, Xcel Gas stated,

> In recent years, the Company has used a mix of At-the-Money (ATM) and Out-the-Money (OTM) options. Prior to the 2015-2016 heating season, the Company primarily used Costless Collars which, as the name suggests do not require the payment of an upfront premium and hence are costless at the time of purchase. However, while collars protect against sharp upward price spikes, they also limit the Company's ability to participate in falling markets. Call

[18] CenterPoint Energy's *Reply Comments*, Page 4.

> Options on the other hand protect against upward price spikes while allowing the Company to participate in downward price movements in exchange for the payment of an upfront premium, similar to the premium paid for home insurance. Option premiums have fallen with the drop in gas prices and lower market volatility we've experienced in recent years which has made options a more affordable and certain hedging tool.

The Department appreciations this information, as well as the annual compliances and post-mortems provided in the hedging utilities' initial AAA Report filings.

The Department concludes that MERC, CenterPoint Energy, and Xcel Gas have complied with the Commission's Order Point 4 from Docket 17-493. The Department appreciates the information provided by the utilities and will continue to review and investigate the hedging information and post-mortem compliances in these utilities' annual AAA filings.

III. DEPARTMENT CONCLUSIONS AND RECOMMENDATIONS

1. The Department recommends that the Commission accept the FYE18 annual reports as filed by the gas utilities as being complete as to Minnesota Rules 7825.2390 through 7825.2920.

2. The Department recommends 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.

A. *GREATER MINNESOTA GAS*

The Department recommends that the Commission:

- accept GMG's FYE18 true-up as filed in Docket No. G022/AA-18-563; and
- allow GMG to implement its true-ups, as shown in Department Attachment G5 of the FYE18 AAA Report.

B. *GREAT PLAINS*

The Department recommends that the Commission:

- accept Great Plains' FYE18 true-ups, Docket No. G004/AA-18-567; and

- allow Great Plains to implement its true-ups, as shown in Department Attachments G6a and G6b of the FYE18 AAA Report.

C. *MERC*

The Department recommends that the Commission:

- accept MERC-NNG's FYE18 true-up filing in Docket No. G011/AA-18-489;
- allow MERC-NNG to implement its true-up, as shown in Department Attachment G8 of the FYE18 AAA Report;
- accept MERC-CON's FYE18 true-up filing in Docket No. G011/AA-18-490; and
- allow MERC-Consolidated to implement its true-up, as shown in Department Attachment G9 of the FYE18 AAA Report.

The Department requests that MERC provide both a discussion regarding the treatment of recovery of gas losses due to contractor main strikes, as well as totals for its Schedule Q in its future initial AAA filings.

D. *CENTERPOINT ENERGY*

The Department recommends that the Commission withhold its decision on CenterPoint Energy's true-up, pending resolution of the Viking demand contract issue in CPE's 2017 and 2018 Demand Entitlements, Docket Nos. G008/M-17-533 and G008/M-18-462, respectively. This is an updated recommendation from the Departments initial *AAA Report*, filed April 25, 2019.

E. *XCEL GAS*

The Department recommends that the Commission:

- accept Xcel Gas' FYE18 true-up, Docket No. G002/AA-18-572; and
- allow Xcel Gas to implement its true-up, as shown in Department Attachment G11 of the FYE18 AAA Report.

Based on Xcel Gas and Xcel Electric's inappropriate attempts not to disclose its material errors, and on the discussion above, the Department recommends that the Commission disallow Xcel Electric's surcharge and require Xcel Electric to refund the entire surcharge amount of $5,181,931 to electric ratepayers.

The Department recommends that Xcel Gas calculate interest at the Prime Rate on the prior period adjustment portion of the High Bridge allocation error, or $3,669,040, and include it as a credit in its 2019 AAA True-Up due September 1, 2019.

Since the fuel cost portion of the refund to Xcel Gas customers is nearing relative completion through true-up rates that apply until August 31, 2019, the Department recommends that the Commission allow the Xcel Gas refund to continue as is, despite the customer generational issues.

Finally, Xcel filed this same information in its Reply Comments in the Electric AAA, as requested in this instant docket, on May 6, 2019. Resolution of Xcel Gas' High Bridge misallocation issue impacts both the Xcel Electric AAA and the Xcel Gas AAA. Therefore, the Department recommends that this issue be resolved prior to, or concurrent with, final Commission action on the Electric AAA.

F. *ALL REGULATED UTILITIES*

The Department recommends that, going forward, the Commission require all regulated gas utilities to identify each non-standard prior-period adjustment made in an Annual True-Up filing, demonstrate whether each such adjustment is subject to the Billing Error Rule, and demonstrate the reasonableness of each such adjustment.

/ja

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

Minnesota Department of Commerce
Response Comments

Docket No. G999/AA-18-374

Dated this 14th day of June 2019

/s/Sharon Ferguson

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