

## Staff Briefing Papers

Meeting Date    October 10, 2019

Agenda Item \*\*4

Company            All Commission-Regulated Natural Gas Utilities

Docket Nos.       **G-999/AA-18-374, et al (please see attached list)**

**G-008/M-18-462**

**In the Matter of the Review of the 2017-2018 Annual Automatic Adjustment Reports and Annual Purchased Gas Adjustment (PGA) True-up Filings**

**In the Matter of CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas' Request for Change in Demand Units**

- Issues
1. Should the Commission accept the natural gas utilities' 2017-2018 annual automatic adjustment (AAA) reports and 2017-2018 annual true-up filings?
  2. Should the Commission approve CenterPoint Energy's proposed level of demand entitlement and proposed recovery of associated demand costs effective November 1, 2018?

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### Relevant Documents

### Date

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

**Relevant Documents****Date****Docket No. G-999/AA-18-374, et al**

CenterPoint Energy – Notice Letter	April 24, 2019
Department – Review of the 2017-2018 AAA Reports	April 25, 2019
Xcel Energy – Reply Comments (Trade Secret)	May 6, 2019
Great Plains Natural Gas Co. – Reply Comments	May 6, 2019
Minnesota Energy Resources Corporation – Reply Comments (TS)	May 6, 2019
CenterPoint Energy – Reply Comments	May 10, 2019
Department – Response Comments	June 14, 2019
Xcel Energy – Reply to Response Comments	July 15, 2019
CenterPoint Energy – Reply to Response Comments	July 15, 2019
Department – Response to Reply Comments-Additional Response Comments	August 16, 2019

**Docket No. G-008/M-18-462**

CenterPoint Energy – Initial Filing (TS)	July 2, 2018
CenterPoint Energy – Supplemental Filing	August 16, 2018
CenterPoint Energy – Demand Entitlement Supplement (TS)	November 1, 2018
Department – Comments (TS)	December 31, 2018
CenterPoint Energy – Reply Comments	January 14, 2019
CenterPoint Energy – Notice Letter	April 24, 2019
Department – Response to Reply Comments	June 19, 2019
CenterPoint Energy – Reply Comments – Reply to DOC Response	July 1, 2019
Department – Additional Comments	October 1, 2019

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## I. Statement of the Issues

1. Should the Commission accept the natural gas utilities' 2017-2018 annual automatic adjustment (AAA) reports and 2017-2018 annual true-up filings?
2. Should the Commission approve CenterPoint Energy's proposed level of demand entitlement and proposed recovery of associated demand costs effective November 1, 2018?

## II. 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 2017-2018 fiscal gas year of approximately \$1.023 billion and \$963 million, respectively.

## III. 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' 2017-2018 AAA fiscal year reports were filed, reviewed and addressed in Docket No. E-999/AA-18-373. These reports are also on the agenda for the Commission's October 10 meeting.)

On or before September 4, 2018, the following gas utilities submitted AAA reports in this docket (Docket No. G-999/AA-18-374) and true-up filings (true-ups) in the dockets indicated below:

Greater Minnesota Gas, Inc. (GMG)	G-022/AA-18-563
Great Plains Natural Gas Co., a Division of MDU Resources Group, Inc. (Great Plains)	G-004/AA-18-567
Minnesota Energy Resources Corporation-(MERC-Consolidated PGA)	G-011/AA-18-490
Minnesota Energy Resources Corporation-(MERC-NNG PGA)	G-011/AA-18-489
CenterPoint Energy (CenterPoint Energy or CPE)	G-008/AA-18-573
Northern States Power Company, d/b/a Xcel Energy (Xcel Gas)	G-002/AA-18-572

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 April 25, 2019, the Department submitted its Review of the 2017-2018 Annual Automatic Adjustment Reports (Review). In its Review, the Department recommended the Commission

accept the fiscal-year end June 30, 2018 (FYE18) 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, MERC, CenterPoint Energy, and Xcel Gas. However, the Department requested that MERC, CenterPoint Energy, and Xcel Gas provide additional information in reply comments.

The Department also provided comments on the gas utilities' 2017-2018 gas costs, peak-day demand profiles and pipeline transportation sources, capacity releases, annual auditor reports, lost-and-unaccounted for gas, contractor main strikes and meter testing, purchasing and hedging practices, as well as other topics.

On May 6, 2019, Xcel Gas, MERC, and Great Plains submitted reply comments.

On May 10, 2019, CenterPoint Energy submitted reply comments.

On June 14, 2019, the Department submitted response comments (Department Response). The Department Response addresses the Reply Comments of Great Plains, MERC, CenterPoint Energy and Xcel Gas. It also includes revisions to the Department's original recommendations.

#### **IV. Department Review**

The Department's Review (in the Executive Summary, pages *ii–iii*) stated:

In FYE18, natural gas prices were very slightly higher than prices during FYE17. Despite the colder-than-normal winter discussed further below, prices remained just shy of \$3 per Mcf during the entire reporting period, only rising to near \$4 per Mcf in January 2018. Several factors seemed to be at play in explaining why prices remained stable. One, while the weather in Minnesota was colder-than-normal, it was only slightly colder than a normal heating season, which would put only typical, seasonal upward pressure on gas prices. Two, storage levels in the months leading up to the 2017-2018 heating season were on par with the 5-year average of approximately 3.8 Bcf,<sup>1</sup> so withdrawals contributed to keeping prices stable. Three, even though consumption rose in the first half of 2018 compared to the first half of 2017, production kept relative pace with the increase in consumption. Production from the Marcellus, Utica, and Permian shales accounted for most of the increased production during the reporting period.<sup>2</sup>

The Henry Hub price<sup>3</sup> in 2016-17 ranged between \$2.55 and \$3.59. In 2017-2018, the Henry Hub price began the reporting period at \$2.98 per Mcf in July 2017 and

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<sup>1</sup> EIA Natural Gas Weekly Update, April 12, 2018, [https://www.eia.gov/naturalgas/weekly/archivenew\\_ngwu/2018/04\\_12/](https://www.eia.gov/naturalgas/weekly/archivenew_ngwu/2018/04_12/).

<sup>2</sup> [https://www.eia.gov/naturalgas/weekly/archivenew\\_ngwu/2018/06\\_28/](https://www.eia.gov/naturalgas/weekly/archivenew_ngwu/2018/06_28/)

<sup>3</sup> The Henry Hub is a distribution hub on the natural gas pipeline system that serves as the official

ended the reporting period around \$2.97 per Mcf in June 2018, but during the year pricing ranged from the low of \$2.67 per Mcf in February 2018 to the high of \$3.87 in January 2018.

With the prevalence of shale gas, natural gas production has become more diversified and less reliant on any single basin or area of production. However, there is still a concentration of 51 percent of industry plant capacity in the Gulf of Mexico, making hurricanes an ongoing concern of market interruption.<sup>4</sup> During FYE18, there were two major interruptions from hurricanes, discussed below.

Natural gas storage inventory generally followed the five-year average levels as a result of only slightly colder-than-normal weather and high levels of domestic natural gas production.

#### A. FYE18 AAA Reports and True-up Filings

Gas costs are a significant portion of most customers' bills. The Department found that the gas utilities incurred approximately \$1.023 billion in natural gas commodity, transportation, storage and related purchased gas costs for the fiscal year ended June 30, 2018. This represents an increase in gas costs of approximately \$160 million, or approximately 19 percent from the level in FYE17. The gas utilities recovered approximately \$963 million in natural gas costs in base rates and the monthly purchased gas adjustment (PGA). The PGA system over- and under-recoveries during FYE18 ranged from a 1.56 percent under-recovery for Xcel Gas to an under-recovery of 10.07 percent for Great Plains.

The following table (Table G1) was copied from page 6 of the Department's Review:

**Table G1: Summary of Gas Utilities' Annual Demand & Commodity Cost Recovery**  
**July 1, 2017 - June 30, 2018**

Utility/System	Gas Cost Recovered (\$)	Incurred Cost of Gas (\$)	Over(Under) Recovery (\$)	Over(Under) Recovery (%)
Greater Minnesota	\$5,416,510	\$5,565,282	\$(148,772)	(2.67%)
Great Plains	\$15,195,404	\$16,897,064	\$(1,701,660)	(10.07%)
MERC				
CON	\$19,570,169	\$20,787,490	\$(1,217,321)	(5.86%)
NNG	\$125,683,269	\$132,619,114	\$(6,935,845)	(5.23%)

delivery location for futures contracts on the New York Mercantile Exchange (NYMEX).

<sup>4</sup> [https://www.eia.gov/special/gulf\\_of\\_mexico/](https://www.eia.gov/special/gulf_of_mexico/)

Utility/System	Gas Cost Recovered (\$)	Incurred Cost of Gas (\$)	Over(Under) Recovery (\$)	Over(Under) Recovery (%)
CenterPoint Energy	\$526,387,508	\$572,097,914	\$ (45,710,406)	(7.99%)
Xcel Gas	\$270,563,892	\$274,859,908	\$(4,296,016)	(1.56%)
<b>MN TOTAL</b>	<b>\$962,816,752</b>	<b>\$1,022,826,772</b>	<b>\$(60,010,020)</b>	<b>(5.87%)</b>

[Footnotes omitted.]

The Department initially recommended that the Commission accept each of the utilities' FYE18 true-up filings in the individual true-up dockets, and allow each of the utilities to implement its FYE18 true-up(s) as shown in DOC Attachments G5 through G11 of the Department's Review.

### **1. CenterPoint Energy Reply Comments**

In its Reply Comments, CenterPoint Energy discussed its letter filed April 24, 2019, in this docket and docket 18-462. CPE discovered an error related to a demand cost issue on the Viking contract. CPE acknowledged that the demand cost estimate of 20,000 units on the Viking Pipeline was erroneously recorded as a five month winter contract instead of a twelve month contract. This oversight resulted in CenterPoint Energy not recovering all of the demand costs it incurred from November 2017 to April 2019. CPE proposes to include the unrecovered portion of the 2017-2018 Viking contract, \$224,226, and the unrecovered portion of the 2018-2019 Viking contract, \$437,060, in its annual true-up adjustment. The estimated annual impact on an average customer bill is \$0.19. CPE also notes that no additional accounting entries need to be made and no prior periods require adjustment.

### **2. Department Response to CPE's Comments**

The Department revised its recommendation for CenterPoint Energy and recommended that the Commission withhold its decision on CenterPoint Energy's true-up pending resolution of the Viking demand contract issue in CenterPoint Energy's 2017 and 2018 Demand Entitlement filings, in Docket Nos. G-008/M-17-533 and G-008/M-18-462, respectively.

### **3. Department Recommendation in CPE's Demand Entitlement Filing (G-008/M-18-462)**

The Department recommended the Commission disallow recovery, through the annual true up factor, of the under-recovered Viking demand costs associated with CPE's calculation error. The Department references Minnesota Rule 7825.2920 (AAA Rule) in its recommendation.<sup>5</sup>

<sup>5</sup> Department of Commerce, Response to Reply Comments, filed on June 19, 2019 in Docket G-008/M-18-462, Page 9



Minnesota Rule 7825.2920, Subpart 2, requires refunds or credits to customers when the error resulted in overcharges of greater than 5 percent of the corrected adjustment charge; the rule does not address surcharges due to errors that resulted in undercharges. Therefore, the Department concludes that, the Company is not able to recoup the undercharge of costs associated with its Viking contract. The PGA mechanism is designed to allow utilities to recover prudently incurred fuel costs, and fuel cost fluctuations, that are outside of their control. However, Minnesota Rule 7825.2920, subpart 2, appears clear that ratepayers are not responsible for undercharges caused by factors within the utility's control, such as administrative errors made by the utility.

The Department reasons that because the error was within the utility's control, and because there are no rules governing utility errors resulting in PGA undercharges, CenterPoint Energy should not be allowed to collect its under-recovery in the PGA true-up.

#### **4. CenterPoint Energy's Response to the Department's Revised Recommendation**

On July 1, 2019 and July 15, 2019, CenterPoint Energy filed responses in Docket G-008/M-18-462 and in the current docket, respectively, to the Department's recommendation to disallow recovery of the Viking contract error. CPE emphasized that the Viking contract and costs associated are needed to serve firm demand. CenterPoint Energy notes that there is no dispute that the costs were reasonable and actually incurred. CPE also states that these costs are for the current gas years that are still open before the Commission and the 2018-19 PGA True-up, which is yet to be filed.

CenterPoint Energy also argues that the AAA Rule is not applicable in this situation. Instead, CPE points to Minnesota Rule 7825.2700, Subp. 7 (PGA Rule).

The true-up amount is the difference between the commodity and demand gas revenues by class collected by the utility and the actual commodity-delivered gas cost and demand-delivered gas cost by class incurred by the utility during the year. The true-up adjustment must be computed annually for each class by dividing the true-up amount by the forecasted sales volumes and applied to billings during the next 12-month period beginning on September 1 each year, provided that the adjustment has been filed under part 7825.2910, subpart 3. (CPE Emphasis)

Additionally, CenterPoint Energy notes that the AAA Rule seems to apply to a situation in which a utility significantly over-collects such that returning the funds through the AAA would be unreasonable.<sup>6</sup>

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 7825.2900 or 7825.2910 or at the end of the next major rate proceeding, whichever is later, and

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<sup>6</sup> Minnesota Rule 7825.2920, also referred to as the AAA Rule, Subp. 2



(2) the amount of the error is greater than five percent of the corrected adjustment charge. (CPE Emphasis)

## **5. Department – Additional Comments**

On October 1, 2019, the Department submitted comments affirming its position.

## **6. Staff Analysis**

The primary argument between CenterPoint Energy and the Department is which one of the prevailing Rules to apply when considering the administrative error with the Viking Contract. There is no dispute between the parties that the error exists and that CPE is responsible for the error. Additionally, the parties do not dispute the prudence or reasonableness of the Viking Contract and agree that the costs were actually incurred to furnish firm service for CenterPoint Energy's customers.

The AAA Rule on approval for automatic adjustment of charges<sup>7</sup> 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 7825.2900 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 AAA Rule on Purchased Gas Charges, Automatic Adjustment<sup>8</sup> states, in part:

Subp. 7. True-up amount. The true-up amount is the difference between the commodity and demand gas revenues by class collected by the utility and the actual commodity-delivered gas cost and demand-delivered gas cost by class incurred by the utility during the year. The true-up adjustment must be computed annually for each class by dividing the true-up amount by the forecasted sales volumes and applied to billings during the next 12-month period beginning on September 1 each year, provided that the adjustment has been filed under part 7825.2910, subpart 3.

Neither rule specifically discusses the process for rectifying a utility error resulting in under-recovery. However, the Commission could decide that the error meets the definition of errors warranting remedy in the Natural Gas Utility Billing Errors rule (in the Customer Information and Complaints chapter of Minnesota Rules), Minn. R. 7820.4000, which states, in part:

Minn. R. 7820.4000. Natural Gas Utility Billing Errors.

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<sup>7</sup> Minnesota Rule 7825.2920

<sup>8</sup> Minnesota Rule 7825.2700



Subpart 1. Errors warranting remedy. 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, the amount of the overcharge shall be refunded to the customer or the amount of the undercharge may be billed to the customer as detailed in subparts 2 through 4.

Subp. 3. Remedy for undercharge. When a utility has undercharged a customer, the utility shall calculate the difference between the amount collected for service rendered and the amount the utility should have collected for service rendered, for the period beginning one year before the date of discovery. If the recalculated bills indicate that the amount due the utility exceeds \$10, the utility may bill the customer for the amount due. But a utility must not bill for any undercharge incurred after the date of a customer inquiry or complaint if the utility failed to begin investigating the matter within a reasonable time and the inquiry or complaint ultimately resulted in the discovery of the undercharge. The first billing rendered shall be separated from the regular bill and the charges explained in detail.

Subp. 4. Exception if error date known. If the date the error occurred can be fixed with reasonable certainty, the remedy shall be calculated on the basis of payments for service rendered after that date, but in no event for a period beginning more than three years before the discovery of an overcharge or one year before the discovery of an undercharge.

The Commission could decide that CenterPoint's application of incorrectly calculated PGA demand rates in the bills was an "application of an incorrect multiplier or constant or other similar reasons."

However, the Commission may also wish to consider granting a variance<sup>9</sup> to several Minnesota Rules if it decides to allow CenterPoint to recover the Viking Demand Entitlement error amount as proposed by

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<sup>9</sup> Minn. Rules, Part 7829.3200. Other Variance.

Subpart 1. When granted. The commission shall grant a variance to its rules when it determines that the following requirements are met:

- A. enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule;
- B. granting the variance would not adversely affect the public interest; and
- C. granting the variance would not conflict with standards imposed by law.

Subp. 2. Conditions. A variance may be granted contingent upon compliance with conditions imposed by the commission.

Subp. 3. Duration. Unless the commission orders otherwise, variances automatically expire in one year. They may be revoked sooner due to changes in circumstances or due to failure to comply with requirements imposed as a condition of receiving a variance.



CPE.

- Minnesota Rule 7825.2700 (the PGA Rule), subp. 7 defines costs that can be recovered through the PGA as being the “...difference between the commodity and demand gas revenues by class collected by the utility and the actual commodity-delivered gas cost and demand-delivered gas cost by class incurred by the utility during the year...”

Because the Viking Demand Entitlement error is being trued up as the result of an error, the Commission may decide to grant a variance to this rule in order to allow CenterPoint to utilize the PGA true-up mechanism to recover the Viking entitlement that would have otherwise been collected using the same mechanism had the error never occurred.

- Minnesota Rule 7825.2920 (the AAA Rule), subp. 2 states: “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 7825.2900 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 Commission may decide to grant a variance to this rule in order to address the fact that the disputed entitlement is less than 5% of the corrected adjustment charge.

- Minnesota Rule 7820.4000 may require a variance to allow CenterPoint to utilize the PGA to recover the Vikings Demand Entitlement.

Alternatively, the Commission may decide that no variances are needed and either allow or disallow recovery of the Viking Demand Entitlement error amount.

## **B. 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 44 through 77 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 (Department Table G15) was copied from page 46 of the Department’s Review.

**Department Table G15: Average Annual Residential Bill and Average Use per Utility for the FYE18 Reporting Period**

Utility	System	Average Usage Rankings	Average Use (Mcf)	Annual Bill Rankings	Total Annual Bill (\$)	Average Cost per Mcf (\$)	Annual Customer Charges (\$)
Greater Minnesota		2	87.0	6	\$837.70	\$9.63	\$102.00
Great Plains		1	84.6	3	\$677.27	\$8.01	\$90.00
MERC	CON	5	91.8	1	\$588.47	\$6.41	\$118.44
	NNG	4	91.6	4	\$718.25	\$7.84	\$118.44
CenterPoint Energy		6	94.8	5	\$732.53	\$7.73	\$125.25
Xcel Gas		3	91.0	2	\$661.73	\$7.27	\$108.00

[Footnotes omitted.]

Similar to the last four years, residential customers of GMG had the highest average annual bill. Residential customers of MERC's Consolidated system 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 which is affected by weather, housing conditions and other variables. 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 besides weather such as load factor, mix of firm and interruptible customers, number of available pipeline systems, access to storage, and provisions of pipeline service as approved by the FERC. See page 47 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 MERC's Consolidated (CON) system had the lowest average purchased gas cost.

The following table (Department Table G17) was copied from page 49 of the Department's Review.

**Department Table G17: FYE18  
Total System Gas Costs (Demand and  
Commodity)<sup>112</sup>**

Utility	PGA Recovered (\$/Dth)	Rank	Current-Period Actual incurred Gas Cost (\$/Dth)	Rank	Actual Over/(Under) (\$/Dth)	Percentage Over/(Under) Recovery
Greater Minnesota	\$ 3.7776	3	\$ 3.8813	3	\$ (0.1038)	(2.67%)
Great Plains - Consolidated	\$ 4.0190	5	\$ 4.4691	5	\$ (0.4501)	(10.07%)
MERC						

Utility	PGA Recovered (\$/Dth)	Rank	Current-Period Actual incurred Gas Cost (\$/Dth)	Rank	Actual Over/(Under) (\$/Dth)	Percentage Over/(Under) Recovery
CON	\$ 3.1942	1	\$ 3.3929	1	\$ (0.1987)	(5.86%)
NNG	\$ 4.2810	6	\$ 4.5173	6	\$ (0.2362)	(5.23%)
CenterPoint Energy	\$ 3.9050	4	\$ 4.2441	4	\$ (0.3391)	(7.99%)
Xcel Gas	\$ 3.5911	2	\$ 3.6481	2	\$ (0.0570)	(1.56%)
<b>MN Weighted Avg.</b>	<b>\$ 3.8383</b>		<b>\$ 4.0775</b>		<b>\$(0.2392)</b>	<b>(5.87%)</b>
<b>MN Non-Weighted Avg.</b>	<b>\$ 3.7946</b>		<b>\$ 4.0254</b>		<b>\$(0.2308)</b>	<b>(5.73%)</b>

[Footnotes omitted]

### C. Department Review of Gas Utilities' Peak-Day Demand Profiles

The Department used data from responses to Department information requests to develop a summary for 2017-2018 of each gas utility's peak-day demand profile, load factor, and reserve margin. Table G19 from page 51 of the Department's Review presents a summary of this information.

**Table G19:<sup>118</sup> FYE18  
Firm Peak-Day Demand Profiles**

Utility/System	Firm Design Day Demand (Mcf)	Firm Peak-Day Demand Deliverability (Mcf)	Annual Firm Throughput (Mcf)	Annual Firm Load Factor <sup>119</sup> %	Reserve Margin <sup>120</sup> %
Greater Minnesota <sup>121</sup>	11,896	12,609	1,140,351	30.16%	5.99%
Great Plains <sup>122</sup>	32,733	34,445	3,109,853	29.75%	5.23%
MERC					
Consolidated <sup>123</sup>	56,470	57,949	4,825,697	28.47%	2.62%
NNG <sup>124</sup>	273,842	266,317	24,507,563	28.70%	(2.75%)
CenterPoint Energy <sup>125</sup>	1,357,000	1,409,596	118,834,104	29.88%	3.88%
Xcel Gas <sup>126</sup>	730,147	776,298	72,593,858	35.92%	6.32%
<b>MN Totals</b>	<b>2,462,088</b>	<b>2,557,214</b>	<b>191,477,733</b>	<b>31.41%<sup>127</sup></b>	<b>3.86%<sup>128</sup></b>

[Footnotes omitted]

The Department supports the continuation of the Commission's requirement that the reserve margins be included in the annual automatic adjustment report since the information is useful for comparison purposes. However, the Department conducted no analysis of the reserve margins in the current filing, but only reported the information in a standardized way. Each

utility's reserve margin is analyzed by the Department, and approved by the Commission, in conjunction with that utility's annual demand-entitlement filing.

Staff agrees and notes that this is an issue in each of the gas utility's annual demand entitlement filings. The gas utility's annual demand entitlement filings for 2018-2019 are on the Commission's agenda for this Commission meeting. CenterPoint Energy's filing and reserve margin, in docket 18-462, is discussed below.

### **1. CenterPoint Energy Reserve Margin**

CenterPoint Energy's reserve margin for the 2018-2019 winter season is lower than it was for the 2017- 2018 winter season. This is due to growth in customer demand and the fact that additional pipeline capacity will not be available until November 2019. The Company considered contracting for additional winter supply to be delivered to its facilities, but determined that it has planned for sufficient capacity and gas supply without additional contracting.

The Department is concerned that the Company's proposed reserve margin is too low and, in the event of an operational issue, may be insufficient to reliably provide firm service on a peak day. The Department also noted:<sup>10</sup>

...if CenterPoint has full access to its peak shaving facility, CenterPoint likely has sufficient capacity to serve needs on an all-time peak day even with the low reserve margin. However, in the event that peak shaving is unavailable on a peak day, the Company does not have an operational reserve margin based on its proposed total entitlement level...

CenterPoint responded to the Department's concerns by stating that it did explore alternatives for adding entitlement, but the options were not cost-effective.<sup>11</sup>

As part of CPE's gas supply plan, the Company did not contract for additional entitlement this season. The Company's original plan had been that the NNG additions for the 2017-18 heating season would be sufficient to also cover expected growth for the 2018-2019 Season. Adding entitlement in "off" years is usually done either by capacity release, or by more expensive means based on the terms of NNGs tariffs and our contract.

Though the Company explored its options for adding entitlement for the present season, particularly considering the additional firm load due to additional firm service requests, there were few cost-effective alternatives for short-term relief. The Company prepared to purchase spot market delivered supplies to make up

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<sup>10</sup> Department Comments on December 31, 2018 in Docket G-008/M-18-462 (CenterPoint Demand Entitlement filing) at 15

<sup>11</sup> CenterPoint Reply Comments on January 14, 2019 in Docket G-008/M-18-462 (CenterPoint Demand Entitlement filing) at 2-3



for the peak day capacity deficiency in the event such additional capacity is needed due to peak day conditions, and monitors the secondary capacity release market for available resources. Given our already committed-to longer-term contracting with NNG for heating seasons beyond this one, additions made last year from the available secondary capacity release market, and our diverse portfolio of supply and peaking, the Company expects its entitlement contracts to be sufficient for the current heating season. CenterPoint Energy's ultimately determined that under the circumstances, including a very conservative estimate and managing the reserve margin risk through its day-to-day operations would be the most reasonable course of action for customers.

CenterPoint also clarified that the Department's concerns about peak shaving capacity were based on a misunderstanding of information in the record.<sup>12</sup>

...After consultation with Concentric Energy Advisors, a better method to estimate Design Day was proposed that provided more daily sales data to be used in statistical modelling. Concentric recommended that a complete design day plan should recognize that sometimes peaking resources may not be available in extreme weather, and it would be reasonable to identify the single largest peaking facility, which is the LNG plant, and make an allowance for some level of physical plant failure...

While the Department quotes 33 percent from the Company's petition, the 33 percent noted in the 2011- 2012 plan filing referred to CenterPoint Energy's calculation to modify the daily peak output for a single propane air facility, Anoka, because this facility had limited storage capability compared to the rated output of the peak shaving station. The Anoka propane plant has daily production capacity of 19,200 DT/day, but used at full output rate would exhaust the storage in 1 1/3 days. For planning purposes, the Company relies on each propane plant's capacity to last for at least a three-day weather event. For all other peak shaving facilities, CenterPoint Energy uses the rated energy output (daily capacity) for each of the facilities because they all have three or more days of energy storage capacity available on their sites.

The Department reviewed CenterPoint's full response and stated that it appreciates CenterPoint's clarification of its decision not to procure additional capacity for the 2018-2019 heating season. The Department acknowledges the difficulties associated with procuring short-term capacity and the costs associated with this capacity, especially in light of CenterPoint's expected and planned capacity additions for the 2019-2020 heating season.

The Department ultimately recommends the Commission accept CenterPoint's proposed entitlement level for the 2018-2019 heating season.<sup>13</sup>

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<sup>12</sup> CenterPoint Reply Comments on January 14, 2019 in Docket G-008/M-18-462 (CenterPoint Demand Entitlement filing) at 3

<sup>13</sup> Department Response to Reply Comments on June 19, 2019 in Docket G-008/M-18-462 (CenterPoint



CenterPoint's additional discussion strongly suggests that the small reserve margin for the 2018-2019 heating season is the result of unique circumstances and will likely be addressed before the next heating season. To the extent resources allow, the Department is willing to work with the Company on improving its reserve margin and procurement strategy to account for potential peak shaving deliverability issues. The Department recommends that the Commission accept the Company's proposal entitlement level for the 2018-2019 heating season and the corresponding reserve margin.

#### **D. Department 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.<sup>14</sup> The Department provided its analysis at pages 71 through 73 of its Review.

The Department explained that it analyzes gas procurement in various ways throughout the year, for example:

- review of the utilities' PGAs and filing of subsequent reports;
- individual meetings with utilities regarding their respective procurement plans for the upcoming year; and
- annual winter pricing recap presentations by the utilities for the Commission.

The Department stated that each utility has unique purchasing practices based on resources available.<sup>15</sup>

... CenterPoint Energy, MERC, and Xcel Gas use hedging. Great Plains North does not have access to storage, and GMG procures storage only for balancing purposes. Utilities that have peak shaving facilities are CenterPoint Energy and Xcel Gas. GMG uses outside sources to assist in managing its gas resource portfolio. Thus, each gas supply portfolio is unique to the utility.

In addition, gas utilities have various ways to purchase natural gas. For example, the largest share of all natural gas purchases, across all utilities, comes from monthly index-priced gas. Other types of purchases include daily spot-priced gas, daily index-priced gas, or fixed price gas.

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Demand Entitlement filing) at 6

<sup>14</sup> 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.

<sup>15</sup> Department Report, Filed April 25, 2019, Page 71-72



[footnotes omitted]

The Department also looked at the non-weighted average FYE18 per-unit storage cost of gas for the individual utilities and the percentage of storage used, or withdrawn, during FYE18 compared to the utility's total winter gas portfolio. The results are shown below in Department Table G31, copied from page 72 of the Department's Review.

**Table G31<sup>179</sup>: FYE18  
Actual Per-Unit Storage Cost and Percentage of Storage**

<b>Utility/System</b>	<b>Storage Costs (\$/Mcf)</b>	<b>Percent of Winter Portfolio Comprised of Storage (%)</b>
Greater Minnesota	\$1.33	32.45%
Great Plains	\$2.75	9.94%
MERC		
Consolidated	\$0.00	0.00%
NNG	\$2.63	27.76%
CenterPoint Energy	\$2.92	27.03%
Xcel Gas	\$2.79	13.65%
<b>MN Weighted Avg.</b>	<b>\$2.83</b>	
<b>MN Non-Weighted Avg.</b>	<b>\$2.48</b>	

(FN 179) The storage costs listed in this table relate to total storage costs for the entire reporting period, while the portfolio percentages relate solely to those used during the five-month heating season.

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

### **E. 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. G-999/AA-10-885, the Commission's April 3, 2012 Order required that in future initial Annual Automatic Adjustment reports, all regulated gas utilities 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.<sup>16</sup> At pages 72 through 76 of its Review, the Department

<sup>16</sup> 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. (August 11, 2014)

provided its review of Minnesota gas utilities' hedging practices and evaluated expectations against actual performance.

The Department stated:<sup>17</sup>

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 2017-2018 heating season was overall colder than normal. As discussed above, natural gas prices remained relatively stable during the reporting period, except for a short period of high prices in January 2018. Natural gas storage inventory level in FYE18 was squarely within the previous five-year range, until January 2018, when storage levels dropped to a five-year low. After the cold snap at the end of December to the beginning of January, storage levels rebounded back above the five-year minimum, but were still below the five-year average.

Based on the 2017-2018 heating season, the Department expected that CPE, MERC, and Xcel Gas would experience larger losses on the hedge portion of their purchase portfolios in November, February, and March, but would see smaller losses, or even financial gains, in December and January.

The Department reviewed the performance of MERC's, CenterPoint Energy's and Xcel Gas's hedging programs against the expectation that they would experience losses on the hedge portion of their purchase portfolios.

According to the Department's Review, MERC and Xcel Gas experienced losses and CenterPoint experienced a financial gain due to hedging during FYE18. The Department concluded that the utilities' hedging programs performed as expected. Specifically:

- In 2017-2018, MERC's hedging portfolio provided gas at a higher cost than if it did not hedge, which is consistent with expectations. Hedges reduce volatility in gas prices but do so for a fee. Since weather was only slightly colder-than-normal, and that the cold snap in January 2018 was short-lived, this outcome is within expectations. 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.
- Xcel Gas' hedges provided a financial loss of approximately \$412,000 in FYE18 due to the lower prices experienced during most of the winter. As expected, Xcel Gas experienced losses on most of its hedges but experienced financial gains on a few of its executed transactions. The Department concludes 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.

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<sup>17</sup> Department Review at 74

- According to CenterPoint Energy, hedged gas purchases were approximately \$8.28 million (or \$0.3274 per dekatherm) lower during the winter period when compared to buying gas at actual First of Month index pricing. CenterPoint Energy's hedges provided a financial gain in FYE18 due to the higher prices experienced in the winter months; since the weather was colder than normal, this outcome is within expectations. The Department concluded that CenterPoint 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.

With respect to the two utilities experiencing losses due to hedging, the Department stated:<sup>18</sup>

...While this is an overall cost to MERC and Xcel Gas ratepayers, there was protection in place in case additional or more severely adverse events occurred. Moreover, the Department observes that the natural gas purchases covered by hedges were only a portion of the total winter requirements purchased, allowing all three utilities to avoid catastrophic prices for portions of their portfolios and to take advantage of lower prices on other parts of their portfolios. The ultimate goal of hedging is to reduce price volatility on a percentage of the utilities' purchase portfolios, not to speculate or make money on commodity prices.

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.

In Order Point 4 of the FYE17 Order in the previous AAA Report, Docket 17-493,<sup>19</sup> 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

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<sup>18</sup> Department Review at 77.

<sup>19</sup> Order Accepting Gas Utilities' Annual Automatic Adjustment Reports and 2016 – 2017 True-Up Proposals and Setting Further Requirements, Docket G-999/AA-17-493 (February 27, 2019)

- A discussion of the particular company-specific trends in using hedging tools and how that has informed their strategy moving forward.

The Department noted that the goal of hedging is not to reduce the overall price of natural gas, but rather, to mitigate risk of price volatility for specific, unfavorable events. The Department reviewed the utilities' filings and found no correlation between hedging gains and losses and a utility's overall gas cost. The Department concluded that the utilities complied with the information required from the Commission's order and appreciated the information provided, making no revisions to its overall recommendations.

#### **F. Lost-and-Unaccounted For Gas (LUF)**

The Department developed a comparison of LUF gas by utility using the formula<sup>20</sup> from the U. S. Department of Transportation, Pipeline and Hazardous Material Safety Administration's Form 7100.1-1 to calculate the LUF percentages.

The following table (Department Table G29) presents the Department's summary of LUF gas percentages for the period July 1, 2017 to June 30, 2018 for Minnesota jurisdictional volumes and is copied from page 65 of the Department's Review. (The footnote number in Department Table G29 has been changed.)

**Department Table G29:<sup>21</sup>  
FYE18 Lost-and-Unaccounted-For Gas**

<b>Utility/System</b>	<b>Revenue as a Percent of Total Gas Costs  (%)</b>
Greater Minnesota	0.14%
Great Plains	1.28%
MERC	
Consolidated	(0.84)%
NNG	(1.40)%
CenterPoint Energy	1.86%
Xcel Gas	1.88%
<b>MN Weighted Avg.</b>	<b>1.41%</b>

As shown in the table above, the LUF gas ranged from a negative 1.40 percent for MERC-NNG to a positive 1.88 percent for Xcel Gas.

<sup>20</sup> The formula is as follows: [(purchased gas + produced gas) minus (customer use + utility use + appropriate adjustments)] divided by (purchased gas + produced gas) equals percent LUF.

<sup>21</sup> See Attachment G19 [of the Department's Review] for detailed calculations.

## 1. MERC

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 it did during the prior three reporting periods and as the former MERC-PNG and MERC-NMU did during reporting periods prior to that. MERC-Consolidated also reported negative LUF during the reporting period.

As stated by the Department, MERC has had a long, and well-documented, history of negative LUF. While it may not be highly unusual for a utility to occasionally report negative LUF, it is unusual for a utility to consistently and continuously report negative LUF.

MERC has previously investigated its negative LUF and while it has found some errors contributing to it in the past, MERC has not found anything that was consistently pointing to billing errors, metering errors, or purchased gas accounting methodologies.

In its February 27, 2019 Order Accepting Gas Utilities' Annual Automatic Adjustment Reports and 2016 –2017 True-Up Proposals and Setting Further Requirements, in Docket No. G-999/AA-17-493, et al (17-493 Order), the Commission required MERC to submit, within 30 days of the Commission's 17-493 Order, a compliance filing outlining a plan to investigate its LUF.

The 17-493 Order also requires MERC to file a report on the results of its LUF investigation with its Fiscal Year 2019 AAA Report on, or before September 3, 2019.

On March 26, 2019, in Docket No. G-999/AA-17-493, MERC submitted its compliance filing outlining a plan to investigate its LUF gas. MERC stated:<sup>22</sup>

While the Company plans to undertake the additional investigation as outlined in this Compliance Filing, it is not certain that any specific explanation will be identified as a result of the investigation. Notably, the negative LUF trend has occurred only on the NNG PGA while MERC's Consolidated PGA has varied between positive and negative LUF year-to-year. As a result, MERC intends to focus its further investigation on the NNG PGA.

In its plan to further investigate the negative LUF that has been reported on the MERC-NNG PGA, MERC proposes to:<sup>23</sup>

- Audit the purchases at each Town Border Station (TBS) on the NNG pipeline against the sales made to customers behind each TBS for the July 2018 – June 2019 AAA reporting period. MERC would similarly evaluate the farm tap customer purchases from NNG against actual billed sales to farm tap customers to identify any differences.

<sup>22</sup> MERC Compliance Filing, Docket Nos. G-999AA-17-493, G-011/AA-17-654, G-011/AA-17-655, and G-011/AA-17-656, p. 1 (March 26, 2019)

<sup>23</sup> Id. pg. 2

- Conduct an investigation to compare the British Thermal Unit (BTU) factors supplied by NNG at their various measurement locations against the BTU factors MERC applies to the corresponding customer bills for the same measurement areas with the goal of identifying any errors in customer mapping to the specific measurement locations. This investigation would be focused on identifying any errors in the overall BTU factors assigned to specific geographic areas.
- Review pressure factor calculations used by NNG, comparing those calculations against those used by MERC.
- Evaluate farm tap billing and meter-reading practices to determine whether those processes could be contributing to the continuous negative LUF trend.
- Report on the results of MERC's investigation in the 2018-2019 AAA Report.

In both its April 26, 2019 Comments in docket 17-493<sup>24</sup> and its Review<sup>25</sup> in the instant docket, 18-374, the Department:

- Did not note any issues or concerns with MERC's proposed investigation plan except it did not agree with MERC's assessment to perform its investigation only for its NNG PGA.
- Recommended that MERC conduct its investigation on both its NNG and Consolidated PGA systems.

In its Reply Comments,<sup>26</sup> MERC agreed to conduct its investigation of LUF on both its NNG and Consolidated PGA systems and report on the results of that investigation in the 2018-2019 AAA Report (due September 1, 2019, in Docket No. G-999/AA-19-401).

## 2. Xcel Gas<sup>27</sup>

During the April 26, 2018 Commission meeting regarding the natural gas utilities' FYE16 AAA Reports, the Commission asked Xcel Gas to provide an explanation of what is going on with the lost gas on its system and what actions they are taking regarding it. Xcel responded that it was bringing a group together to understand why they have more LUF than the other utilities. Xcel agreed that the Commission could expect to see in its next filed report some more detailed analysis and explanation and a description of actions Xcel has taken to address this issue.

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<sup>24</sup> Department Comment Letter, p. 2, Docket Nos. G-999/AA-17-493, G-011/AA-17-655, G-011/AA-17-656 (April 26, 2019)

<sup>25</sup> Department Review, p. 66.

<sup>26</sup> MERC Reply Comments, p. 2, Docket Nos. G-999/AA-18-374, G-011/AA-18-490, and G-011/AA-18-489 (May 6, 2019)

<sup>27</sup> Staff has modified excerpts of Xcel Energy's reply comments and subsequent responses for clarity. Phrases such as "we" and "our" have been replaced with "Xcel Energy" or one of its business units and has been placed in brackets.

Xcel's gas AAA report filed subsequent to the April 26, 2018 Commission meeting was the FYE18 report filed on August 31, 2018. In its FYE18 report, Xcel Gas stated that it had its internal audit department investigate this issue and Xcel Gas identified the following five items to note as part of the unaccounted for gas volumes:<sup>28</sup>

- Fuel losses incurred in conjunction with storage injections were not separately identified in the Company's response to DOC Information Request 16 (IR 16) and thus would be in the unaccounted for gas volume total.
- Fuel used in the operations associated with liquefying and vaporizing liquefied natural gas have not been separately identified in IR 16, and would be included in the unaccounted for total.
- Third-party cash out volumes are not quantified in the Company's reconciliation of purchase and sale volumes in IR 16.
- Metered gas volumes that are not billed because they are associated with vacant premises and/or the owner is unknown are included in the total unaccounted for gas.
- [Xcel Gas'] investigation also identified an allocation issue regarding gas volumes used at the High Bridge plant. High Bridge is one of Xcel Energy's natural-gas powered electric generation units, and is a natural gas transport customer of the LDC. As part of the end-user allocation agreement between High Bridge and LDC, the LDC communicates to Northern Natural Gas (NNG) the volumes used by High Bridge. NNG uses these volumes to allocate costs between the LDC and the electric utility. The High Bridge volumes were being reported from SCADA measurements instead of the MV90 metering (MV90 is billing quality data, SCADA is not). The High Bridge volumes have been understated to NNG over the last several years, and thus the plant has used more gas than they have brought onto the system. The table below shows the volume impact on Lost and Unaccounted for gas of this issue.

**Adjustment to Lost and Unaccounted for Total**

	<b>MN</b>	<b>MN Adj</b>	<b>Diff</b>
FYE14	1.30%	1.14%	-0.16%
FYE15	2.46%	2.08%	-0.37%
FYE16	2.72%	2.11%	-0.61%
FYE17	2.52%	2.14%	-0.38%

[Xcel Gas] is making a one-time adjustment to true-up the difference between what the plant burned versus the gas the plant delivered to the system. In order to value this gas the LDC used its tariff based cash-out mechanism. The total

<sup>28</sup> Xcel Energy's 2018 Annual Automatic Adjustment of Charges Report – Gas, Attachment G, pages 2-3 (August 31, 2018, filed in e-dockets September 4, 2018).



system cost impact is estimated to be approximately \$6 million (\$4.2 million for these four years, and \$1.8 million for the current 2017-18 gas year), based on the over/undertake cash-out mechanism in [Xcel's] transportation tariffs. [Xcel Gas has] included a total system credit of \$6 million (\$5.2 million for Minnesota) in the 2017-18 gas true-up filing, with these true-up factors applied to customer bills over the next 12 months. [Xcel Energy] intend[s] to allocate this adjustment to electric customers through the monthly FCAs over a similar one-year period.

#### **a. Department Review**

In its Review, the Department stated,

To summarize, Xcel Gas incorrectly reported to NNG the amount of gas used by Xcel Gas' transportation customer, Xcel Electric's High Bridge generating plant, thus Xcel Gas has been charged for more gas than was actually used, and Xcel Electric has been charged less.<sup>29</sup>

Further, the Department stated that, given the sparse record, it is not clear whether Minnesota Rule 7825.2920, subp. 2, the automatic adjustment errors rule, or 7820.4000, the natural gas customer billing errors rule, applies. The Department requested that Xcel Gas provide in *Reply Comments* its analysis of which rule applies. The Department also requested that Xcel Gas provide:<sup>30</sup>

- The amounts that should be surcharged and/or refunded associated with each year in which the SCADA readings were erroneously provided to NNG.
- The detailed calculations supporting its High Bridge adjustment, including a reconciliation of the amounts shown in the Company's filings.

The Department recommended that Xcel file a supplemental filing in Docket No. E-999/AA-18-373 as soon as possible, so the High Bridge issue can be addressed in *Reply* and *Response Comments* in that docket.

The Department believes that Xcel Gas's LUF percentage for FYE18 is reasonable.

#### **b. Xcel Reply**

In its Reply Comments (pp. 5-6), Xcel Gas provided more background on the High Bridge allocation issue as follows:<sup>31</sup>

The Company transports gas on Northern Natural Gas (NNG) for both its gas distribution business as well as to be used for fuel at some of the Company's gas-

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<sup>29</sup> Department Review at 67.

<sup>30</sup> Department Review at 68.

<sup>31</sup> Xcel Gas May 6, 2019 *Reply Comments* at 5-6.



fired electric generating units, including the High Bridge Plant. Xcel-Gas and Xcel-Electric each have their own transportation agreements with NNG, and in the case of the High Bridge Plant, both deliver to the same Town Border Station (TBS). Under the End-User Allocation Service Agreement between Xcel-Gas, Xcel-Electric, and NNG, Xcel-Electric monitors its daily gas use at the plant and schedules gas supplies on NNG as necessary to serve the plant separate from Xcel-Gas' use. On a monthly basis, Xcel-Gas provides NNG with daily information regarding the quantity of gas used at High Bridge. NNG then assigns the delivery quantities measured at the TBS between Xcel-Gas and Xcel-Electric. This assignment is important because it ensures that each group of customers only pays for the quantity of gas delivered for their use. If delivery quantities are understated for Xcel-Electric, then delivery quantities for Xcel-Gas are overstated, and vice versa.

In connection with its investigation into the cause of lost and unaccounted for gas from June 2013 through May 2018, [Xcel Gas] discovered that, during that timeframe, Xcel-Gas had inadvertently been providing NNG with incorrect information regarding the quantity of gas used at High Bridge. Until 2018, Xcel-Gas had been reporting gas quantities used for fuel at its electric plants to NNG based on preliminary data from its SCADA system. Through [Xcel Gas's] audit of lost and unaccounted for gas, [Xcel Energy] discovered this data was less accurate than data from MV90 meters, which produce billing-quality data. As a result, by relying on the SCADA data, Xcel-Gas unintentionally understated the quantity of gas used at High Bridge to NNG, and Xcel-Electric's customers underpaid for that gas by \$6,004,319. At the same time, the quantity of gas provided to Xcel-Gas was overstated, and its customers overpaid by the same \$6,004,319.

The specific amounts misallocated each year are listed in Table 3, below, and detailed calculations are provided in Attachment C. [Footnote omitted]

**Table 3: Misallocations**

<b>AAA Year</b>	<b>Volume Diff (Dkt)</b>	<b>MN &amp; ND \$</b>	<b>MN \$</b>	<b>ND \$</b>
2013-2014	143,608	784,183	685,313	98,870
2014-2015	316,554	1,266,271	1,098,369	167,902
2015-2016	460,775	1,225,682	1,061,942	163,740
2016-2017	299,564	963,933	823,416	140,517
Subtotal 2013-2017	1,220,501	4,240,069	3,669,040	571,029
2017-2018	556,290	1,764,250	1,512,892	251,359
Total 2013-2018	1,776,791	6,004,319	5,181,931	822,388

When [Xcel Energy] discovered this misallocation of costs between gas and electric customers, [Xcel Energy] immediately took steps to correct it. [Xcel Energy] noted this in [its] 2018 Annual Automatic Adjustment of Charges Report – Gas, Docket No. G-999/AA-18-374, and in the Fuel Clause Adjustment Report for October 2018, Docket No. E-002/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.

[Xcel Gas] 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.

Xcel Energy does not believe the High Bridge misallocation is a billing error under either Minn. R. 7820.3800 or 7820.4000. This issue relates to the underlying calculation of fuel charges due from all customers as opposed to issues with a particular customer or set of customers' meters or bills.<sup>32</sup>

Xcel stated:<sup>33</sup>

Additionally, application of the billing rules to this situation would limit [Xcel Energy's] ability to correct the misallocation and ensure that both gas and electric customers pay for the actual costs of the gas used to serve them. Under Minn. Rule 7820.4000, subp. 2, refunds to gas customers for overcharges are limited to the amount overcharged plus interest for "the period beginning three years before the date of discovery." In this case, that means any refund to gas customers would exclude amounts misallocated before 2015. Likewise, under Minn. Rule 7820.3800, subp. 3, utility recoveries for undercharges are limited to the amount undercharged for "the period beginning one year before the date of discovery." In this case, that means any recovery from electric customers would exclude amounts misallocated before 2017. [Xcel Energy] believe[s] 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 Energy is] unaware of any particular rule that clearly governs this situation. But, [Xcel Energy believes its] approach is the most equitable way to handle this issue. Upon discovering [Xcel Energy's] error, [it] promptly took steps to refund all gas customers for the amount that was overcharged. At the same time [Xcel Energy] began recovering from all electric customers the corresponding amount

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<sup>32</sup> Xcel Gas May 6, 2019 *Reply Comments* at 7.

<sup>33</sup> *Id.*, at 7-9.



that was undercharged. [Xcel Energy] spread the recovery over twelve months in the same manner as the credit is being returned to gas customers.

In addition to correcting the misallocation associated with the High Bridge Plant, [Xcel Energy has] taken steps to ensure this will not happen again through the addition of monthly communication of MV90 meter data for the purposes of accounting and reporting to NNG.

As explained above, [Xcel Energy believes its] approach fits within the construct of applicable rules, and [Xcel Energy does] not believe resolving this misallocation of costs requires any rule variances. However, should the Commission determine otherwise, [Xcel Energy] respectfully request[s] a variance to the billing error rules (Minn. Rules 7820.3800 and 7820.4000), the automatic adjustment error rule (Minn. Rule 7825.2920, subp. 2), and any other applicable rules necessary to effect the reallocation. Such a variance would be appropriate under the requirements of Minn. Rule 7829.3200.

Minn. Rule 7820.3200 allows the Commission to vary its rules if it finds:

- (a) Enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule;
- (b) Granting the variance would not adversely affect the public interest; and
- (c) Granting the variance would not conflict with standards imposed by law.

We address these requirements below.

*(a) Excessive Burden*

Enforcing the rules could impose an excessive burden on both the Company and our customers. If the Commission were to find that the adjustment error or billing rules apply but not grant a variance allowing for the shifting of these costs, gas customers would inequitably pay for gas they did not use.

*(b) Public Interest*

Granting a variance is in the public interest because it would appropriately rebalance costs between gas and electric customers. If these rules were to apply without variance, the result would be that gas customers subsidized electric customers for gas used at the High Bridge Plant. Granting a variance permits the Company to unwind this unintentional misallocation of costs and ensure that both sets of customers pay for the fuel they used.

*(c) No Conflict with Standards Imposed by Law*

Granting a variance would not conflict with any standards imposed by law. The Commission has the authority to grant variances to the fuel clause and billing rules.

### c. Department Response Comments

In its response, the Department stated:

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 error warrants more information and attention than a minimal “compliance” to Docket E,G-999/AA-97-1212 in the back of Xcel Gas’s Annual Report and a brief mention in its October 2018 FCA. [Footnotes omitted]...<sup>34</sup>

...Xcel Gas’s assessment of this situation as “We simply passed certain gas costs on to the wrong customer base” is, frankly, alarming...<sup>35</sup>

...When something goes wrong, utilities are expected to be transparent; ...<sup>36</sup>

...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.<sup>37</sup>

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.<sup>38</sup>

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

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<sup>34</sup> Department Response Comments at 9.

<sup>35</sup> *Id.*, at 10.

<sup>36</sup> *Ibid.*

<sup>37</sup> *Ibid.*

<sup>38</sup> *Ibid.*

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.<sup>39</sup>

The Department further states:<sup>40</sup>

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.

The Department recommended 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 Department stated, the Commission should disallow the prior period surcharges of \$3,669,040, to be consistent with previous Billing Error Rule variances.<sup>41</sup>

With respect to Xcel Gas, the Department stated:<sup>42</sup>

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 7825.2900 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.

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<sup>39</sup> Id., at 11.

<sup>40</sup> Id., at 12.

<sup>41</sup> Ibid.

<sup>42</sup> Department Response Comments at 12-13.

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.

#### **d. Xcel Energy's Reply to Response Comments**

Xcel Energy responded to the Department's criticism of Xcel Gas's reporting on the High Bridge issue.<sup>43</sup>

To be sure, [Xcel Energy] did not become aware of this issue until it was found in connection with [its] investigation into lost and unaccounted for gas from 2013 through 2018. Until that investigation, [Xcel Energy] knew that [it] had a larger percentage of lost and unaccounted for gas than other gas utilities, however, [Xcel Energy] had no reason to believe that [its] then-current metering and reporting methods—which involved the reporting of gas quantities used for fuel at [its] electric plants to NNG based on data from the SCADA system—were inaccurate.

Once [Xcel Energy] discovered this issue, [Xcel Energy] first reported it in the Company's Gas AAA, as was requested by the Commission, and then in the next Electric FCA docket in the place specifically designed for reporting such issues: The attachment entitled Unusual Items Over \$500,000, which is included each month in the Company's monthly Fuel Clause Adjustment filing. This filing requirement was added to the Company's monthly filings following a similar event in the past, in which certain generation costs associated with the Company's Riverside Plant were misallocated between wholesale and retail customers. Although the Department characterizes this reporting mechanism as "one sparse page at the end of a 97-page standard filing," it is precisely where issues like the High Bridge Plant allocation are to be reported, and where [Xcel Energy] expected the Department to look for such issues as it was their recommendation to flag such issues in the monthly Fuel Clause Adjustment filings. [Xcel Energy] therefore respectfully disagree with any suggestion that the Company attempted to hide or otherwise bury this issue in [its] filing... [footnotes omitted]

...Moreover, while brief, the Company's description of the issue in [its] Fuel Clause Adjustment Report for October 2018, Docket No. E-002/AA-18-622, was transparent:

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<sup>43</sup> Xcel Reply to Response Comments at 2-4

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.

This plainly set out the issue [Xcel Energy] discovered, its magnitude and duration, how it occurred, and our plans for resolving it. [Xcel Energy] presented this information publicly as soon as [Xcel Energy was] aware of it, consistent with the Department's expectation that utilities should be "up-front and transparent."

[Xcel Energy's] approach, moreover, certainly was not an "attempt[] to circumvent Commission authority to even consider, let alone make, a policy call in this scenario." To the contrary, [Xcel Energy] publicly stated [its] specific plans for refunding and recovering the misallocated funds, and—in the absence of a specific rule governing this situation— [Xcel Energy] did so in a way that aligns with good policy, ensuring that both gas and electric customers pay for the actual costs of the gas used to serve them...

Xcel notes that it and the Department agree that the billing error rules under Minn. R. 7820.3800 and 7820.4000 do not apply to the High Bridge issue. However, in light of the Department's recommendation to use the billing error rules to calculate the refund to Xcel Gas customers and to deny any surcharge to Xcel Electric customers; Xcel states: <sup>44</sup>

...if the Department proposes to look to the billing error rules in this case, then it should look to them in their entirety. Under Minn. Rule 7820.3800, subp. 2, and 7820.4000, subp. 2, refunds for overbilling are limited to "the difference between the amount collected for service rendered and the amount the utility should have collected for service rendered, plus interest, for the period beginning three years before the date of discovery[.]" Relatedly, under Minn. Rule 7820.3800, subp. 3, and 7820.4000, subp. 3, surcharges for underbilling are limited to "the difference between the amount collected for service rendered and the amount the utility should have collected for service rendered, for the period beginning one year before the date of discovery..."

...Based on these figures,<sup>45</sup> were the billing error rules to be applied in this case, the Company would owe Minnesota gas customers a refund of \$3,398,250 (misallocations from 2015-2018) plus interest. The Company would also be

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<sup>44</sup> Id. at 4-5

<sup>45</sup> Xcel reproduced the Misallocations table from its earlier comments. This table appears as Table 3 on page 20 of Staff Briefing Papers





allowed to recover a surcharge from Minnesota electric customers of \$1,512,892 (misallocation from 2017- 2018).

[Xcel Energy continues] to believe that correcting the misallocation in the way [it] first set forth in [its] October 2018 Monthly FCA Report is the most equitable approach. (As noted in our Reply Comments, this reallocation process would not result in any benefit to the Company.) However, if the Commission decides to look to the billing error rules, [Xcel Energy believes] requiring a refund of \$3,398,250, plus interest, and a surcharge of \$1,512,892 is more consistent with the rules than the Department's recommendation of a \$5,181,931 refund (plus interest on \$3,669,040 of prior-period misallocations) and no surcharge.

#### **e. Department's Additional Response Comments**

The Department's response reiterated its position that Xcel should have been more transparent in reporting the High Bridge issue. Specifically, the Department noted:<sup>46</sup>

- Xcel only identified the total \$6 million High Bridge Adjustment in the first monthly FCA (October 2018) that contained the surcharge, but not in any of the subsequent monthly FCAs that contained the surcharge up to the most recent one, the August 2019 monthly FCA (docket #19-494).
- Xcel did not identify the specific monthly High Bridge Adjustment surcharge amount applied to its October 2018 monthly FCA calculation or in any subsequent monthly FCAs up to the most recent one, the August 2019 monthly FCA (docket #19-494). According to an email exchange with Xcel, the monthly surcharge was above the \$500,000 unusual item amount, \$500,360.
- The \$500,360 surcharge was instead buried with other fuel costs under the monthly actual cost of FERC account 151 (book cost of fuel on hand used in the calculation of Xcel's actual system energy costs) in each monthly FCA filing that contained the surcharge as if this surcharge was simply part of Xcel's corresponding actual monthly cost of providing service.

The Department also stated that the High Bridge issue should, in essence, be considered as a deferred accounting request.<sup>47</sup>

The Department disagrees with Xcel's assertion that this issue is not similar to deferred accounting requests. The Department notes that the High Bridge Adjustment includes costs dating back to 2013 that Xcel is now charging to electric ratepayers in monthly FCAs in 2018 and 2019. The Department notes that the process of charging current ratepayers for prior period costs is certainly a form of deferred accounting. As a result, the Department concludes that Xcel's High Bridge

<sup>46</sup> Department Additional Response comments at 2

<sup>47</sup> Id. at 4



Adjustment constitutes a form of deferred accounting that should have prompted the Company to consider opening a separate docket.

Finally, the Department discussed its recommendation that the Commission disallow Xcel's initial and modified proposals to surcharge Xcel Electric's customers.<sup>48</sup>

While Xcel's alternative proposal may seem attractive, a key fact that distinguishes this issue from billing errors (for example due to a supplier's error), is that these problems were caused by Xcel's own errors in providing billing data to Northern Natural Gas. Xcel's ratepayers should not be harmed due to Xcel's actions. In addition, Xcel's lack of transparency in identifying the \$6 million surcharge to Xcel Electric's customers, as discussed above, made it more difficult even to identify this issue. As a result, the Department continues to recommend that the Commission disallow Xcel Electric's surcharges related to the High Bridge Adjustment.

#### **f. Staff Analysis**

The disputed issues generally fall into one of three categories: transparency by Xcel, deferred accounting, and how to remedy the error.

- i. The Department believes Xcel could have been more transparent in disclosing the error.

Xcel and the Department disagree on whether Xcel properly disclosed the High Bridge issue once it was discovered. Xcel notes that Attachment 6 (unusual items over \$500,000) of its FCA filing was the appropriate place to disclose the error. The Department, however, responded that Xcel only included the item in a single FCA filing and in Xcel's annual true up, listed the adjustment in FERC account 151 (book cost of fuel on hand used) in the calculation of Xcel's actual system energy costs.

Staff notes that, pursuant to the Commission Order in the FCA Reform docket, the monthly FCA filing is scheduled to be discontinued beginning January 1, 2020.<sup>49</sup> Thus, the current Commission approved method on how to handle such future occurrences will need to be updated. The Department recommends that the Commission require Xcel Energy to identify and include these types of items in future AAA filings and annual FCA true-up filings under the new FCA reform process. The Commission may wish to discuss this issue at its October 10, 2019 agenda meeting and clarify its expectations as to how errors of this size should be reported in the future.

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<sup>48</sup> Id. at 5-6

<sup>49</sup> *In the Matter of an Investigation into the Appropriateness of Continuing to Permit Electric Energy Cost Adjustments*, Docket No. E-999/CI-03-802, Order Revising Implementation Date, Establishing Procedural Requirements, and Varying Rule (December 12, 2018) at 7.

- ii. The Department suggests that Xcel could have opened a separate docket to address the High Bridge issue.

The Department stated that Xcel should have considered opening this issue as a separate docket, citing Docket No. G-002/M-17-894, Xcel's request for deferred accounting treatment for manufactured gas plant (MGP) cleanup costs. Although Xcel argues that the MGP docket is a "false equivalency," the Department notes that the process of charging current ratepayers for prior period costs outside Xcel's normal true-up or reconciliation period is a form of deferred accounting and, thus, this issue should have been raised in a separate docket.

As with the transparency issue, no party has made any recommendations for the Commission to take specific action. Therefore, Staff has not included any decision alternatives for the Commission's consideration. The Department's ultimate conclusion is that Xcel should have considered opening a separate docket to request either approval for deferred accounting or perhaps a variance to the FCA rules.

- iii. Financial Remedy

In its initial report, the Department questions the High Bridge adjustment, asking Xcel Gas to reconcile the \$5.2 million and \$3.7 million referenced in its filing. Xcel responded that the \$3.7 million is the total of misallocated gas from 2013-2017 and the \$5.2 million includes an additional \$1.5 million from the 2017-2018 reporting year.

Xcel provided an alternative recommendation, using the billing error rules, to refund Minnesota gas customers \$3,398,250, plus interest, for the misallocations from 2017-2018 and to surcharge electric customers \$1,512,892, which is the misallocation from 2017-2018.

The Department argues that Xcel's Electric ratepayers should not be harmed due to Xcel's error. Therefore, the Department is recommending that the Commission disallow any surcharge related to the High Bridge error and that the entire \$5.2 million, plus interest on the \$3.7 million, be refunded to Xcel Gas ratepayers through the true-up.

## **G. Reporting of Contractor Main Strikes and Meter Testing**

In its October 11, 2012, *Order Accepting Progress Reports and Meter Testing Plans* in Docket No. G-999/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.

## 1. Contractor Main Strikes Reports

The Department reviewed the AAA reports and determined that all gas utilities filed the required information as it related to contractor main strikes.<sup>50</sup> However, the Department asked MERC and CenterPoint for more information:<sup>51</sup>

The Department requests that MERC and CenterPoint provide in Reply Comments a discussion of the treatment of its gas losses due to damages (i.e., how the cost of gas lost is collected from third parties and credited back to Firm customers) for each PGA system.

Additionally, in future AAA Reports, the Department again requests that MERC provide totals for Schedule Q...

...More specifically, the Department notes that the same third party was responsible for the most strikes by any one party on both the MERC-NNG and CenterPoint Energy systems. This third party caused 19 strikes on MERC-NNG's system and 34 strikes on CenterPoint Energy's system. These strikes on MERC's system accounted for 37 percent of total dekatherms lost in 2017 and eight percent of dekatherms lost in FYE18 on CPE's system. The Department requests that MERC-NNG and CenterPoint provide a discussion in Reply Comments regarding this third party, including but not limited to whether this level of strikes is typical and any action the utilities have taken to reduce strikes caused by this party.

### g. MERC Reply Comments

In its May 6, 2019, *Reply Comments*, MERC explained "that in instances where gas losses occur due to damage, MERC bills lost gas charges to the party responsible for damages. Any revenue collected from those third parties are netted against the commodity cost, thereby reducing the overall gas costs for the AAA period." MERC stated that:<sup>52</sup>

For the 2017-2018 gas year, the following amounts were credited to the commodity costs:

PGA	\$ Amount Credited to Commodity
NNG	\$14,867.05
Consolidated	\$8,473.88

In response to the Department's request for Schedule Q totals, MERC stated:<sup>53</sup>

<sup>50</sup> See GMG's AAA Report, page 5, Great Plains' AAA Report, Exhibit D, MERC's AAA Reports, Schedule Q, CenterPoint Energy's AAA Report, Exhibit 9 and Xcel Gas' AAA Report, Attachment G, Schedule 7.

<sup>51</sup> Department Review at page 69.

<sup>52</sup> MERC's May 6, 2019 *Reply Comments* at page 3.

<sup>53</sup> Id. at page 4

...with respect to Schedule Q, MERC is including revised Schedules Q with the total gas losses and amounts billed summed as attachments to this filing. MERC will ensure that Schedule Q includes totals for future AAA filings.<sup>54</sup>

MERC noted that it was a locating service, not a specific contractor, which is responsible for the significant number of line hits during the gas year. MERC provided a table<sup>55</sup> to demonstrate the strikes caused by mislocates has been consistent year over year.

	2015	2016	2017	2018
<b>Mislocates</b>	37	44	39	36
<b>% Mislocated</b>	0.040%	0.044%	0.039%	0.037%

MERC also detailed the steps it has taken to improve contractor performance and its attempt to reduce the number of mislocate incidents.<sup>56</sup>

1. MERC's region supervisor and/or manager will reach out to the locator to discuss specific incidents;
2. MERC will audit the employee who made the mistake to determine if it appears to be an isolated incident;
3. The locating service sometimes completes an internal audit and upon request, has shared the results of such audits with MERC;
4. The Minnesota Office of Pipeline Safety has completed audits of completed locates by the individual who caused the incident;
5. MERC holds periodic meetings with the locating service to discuss incidents and corrective actions;
6. MERC has attended some of the contractor's employee training sessions to emphasize the importance of proper locates of gas facilities; and
7. The locating service's contract includes a penalty and an incentive clause as a way to drive improved performance.

<sup>54</sup> MERC made an identical statement for the 2016-2017 gas year in docket G-999/AA-17-493. The statement in reply comments was filed December 12, 2018.

<sup>55</sup> Appears as Table 2 in MERC's May 6, 2019 Reply Comments, Page 3

<sup>56</sup> MERC's May 6, 2019 *Reply Comments* at pages 3-4



#### **h. CenterPoint Energy's Reply Comments**

CenterPoint Energy's comments mirrored that of MERC, stating that a party responsible for damaging facilities is responsible to pay for all charges required to restore the facility to service. CenterPoint Energy also detailed its accounting for payments received for damages.<sup>57</sup>

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, CenterPoint Energy provided similar comments to MERC regarding the third party responsible for substantially more damage than the others. CenterPoint identified this party as a line locator and notes that the line locating company did not damage the property, but rather, was financially responsible for the damage due to mislocation.<sup>58</sup>

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. G-008/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).

## **2. Meter Testing Updates**

The Department also reviewed the AAA reports and determined that all of the gas utilities filed the required information as it relates to meter testing updates. The Department provides a short summary at pages 70-71 of its filing.

### **H. Penalties collected for Non-Compliance with Curtailment Orders/Use of Unauthorized Gas**

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."<sup>59</sup>

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<sup>57</sup> CenterPoint's May 10, 2019 *Reply Comments* at page 2

<sup>58</sup> CenterPoint's May 10, 2019 *Reply Comments* at page 2

<sup>59</sup> 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 (August 24, 2015)

In its February 27, 2019 Order Accepting Gas Utilities' Annual Automatic Adjustment Reports and 2016-2017 True-Up Proposals and Setting Further Requirements, Docket No. G-999/AA-17-493 (February 27, 2019 Order), the Commission required all Minnesota regulated natural gas utilities to provide, for the next three AAA reports (2017-2018, 2018-2019, and 2019-2020), 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).

The February 27, 2019 Order, was issued subsequent to the utilities making their initial filings for the 2017-2018 gas season.

CenterPoint Energy, GMG, and Great Plains reported that they did not have any non-compliant interruptible customers that engaged in unauthorized use during a curtailment period.<sup>60</sup>

For MERC, the Department stated:<sup>61</sup>

On page 8-9 of MERC-NNG's AAA Report, MERC stated that there were seven curtailments called and three occurrences of unauthorized gas use by MERC-NNG customers during the time period, down from 12 occurrences in FYE17. MERC reported the required information for those customers and stated that MERC had discussions with each to ensure the curtailment process was understood.<sup>62</sup> No curtailments were called on MERC's Consolidated system during the reporting period.

For Xcel Gas, the Department stated:<sup>63</sup>

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<sup>60</sup> GMG's AAA Report, page 5.

<sup>61</sup> Department Review, page 29.

<sup>62</sup> In the Order from Docket No. G999/AA-14-580, The Commission required MERC in its next rate case to raise the Company's curtailment penalty from \$20 to \$50 per dekatherm. MERC did so in Docket No. G011/GR-15-736. The Commission's Order in Docket 15-736 was issued on October 31, 2016, therefore the increased penalty of \$5 per therm was first reflected in MERC's filing in Docket No. G999/AA-18-374.

<sup>63</sup> Department Review, page 42.

Xcel Gas provided information in a supplemental filing submitted March 22, 2019, in compliance with the Commission's Order in Docket 17-493. Xcel Gas reported 289,157 therms of unauthorized gas billed in the 2017-2018 gas year. Xcel Gas also detailed its communication procedures to avoid or address unauthorized use.

The Department concluded that Xcel Gas complied with the Commission's *Order* in Docket No. 17-493 on unauthorized gas use.

Staff notes that penalties collected for non-compliance with curtailment orders/use of unauthorized gas during fiscal year 2019 was one of the main issues the Department discussed in its comments on the impact of severe weather in January and February 2019 on utility operations and service, in Docket No. 19-160. This docket is on the agenda for this Commission meeting. In that docket, the Department and parties are asking the Commission to consider changing the penalties for failing to curtail and various new reporting requirements.

#### **V. Review of Fiscal-Year 2019 (2018-2019) Natural Gas Annual Automatic Adjustment Reports and True-up filings, Docket No. G-999/AA-19-401**

The gas utilities submitted their FY19 AAA reports and true-up filings on, or about, September 1, 2019. It is staff's understanding, that because of the increase in the amount of time sensitive workload that will occur as a result of the rate cases filed in late 2019, the Department may ask for additional time to complete its review of the FY19 AAA reports and true-up filings.

The average amount of time the Department has requested over the past 4 years is approximately 366 days.

Docket #	Fiscal (Gas) Year	AAA Reports & True-up filings (approx.)	Department Review	Elapsed # Days	# of Subsequent Department Comments
18-374	FY18	9/1/2018	8/25/2019	358	3
17-493	FY17	9/1/2017	12/4/2018	459	2
16-524	FY16	9/1/2016	8/11/2017	344	1
15-612	FY15	9/1/2015	7/1/2016	304	1
				366	

Under the Commission's rules of practice and procedure, Minn. Rule, part 7829.1275,<sup>64</sup> the Commission delegated authority to its Executive Secretary to vary time periods for good cause. As of the date of these briefing papers, however, no such request has been submitted. If the Department does not ask for an extension, the Commission may want to direct its staff to issue a notice for comment that clarifies and provides direction to parties about how much time will be allowed for review and comment on these filings.

<sup>64</sup> Minn. Rule, part 7829.1275. Time Periods Varied. Except for time periods set by statute, the commission may vary the time periods established by this chapter on its own motion or at the request of a person for good cause shown. The commission may delegate the authority to vary time periods to the executive secretary.



Staff brings this to the Commission's attention because an extension of time for initial comments of greater than one year would mean the Commission might not be able to have a hearing on any errors that occurred in fiscal-year 2019 until the end of 2021. It might also mean that the Commission would not have a hearing on fiscal-year 2019 curtailment activity, hedging, and lost-and unaccounted for gas until the end of 2021.

Staff understands that if anything urgent comes up, the Department would bring this to the Commission's attention immediately.

## **VI. Decision Options**

### **All Commission Regulated Natural Gas Utilities**

1. Accept the FYE18 annual reports as filed by the gas utilities as being complete as to Minnesota Rules 7825.2390 through 7825.2920. (See staff briefing papers, pp. .)
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. )

### **Greater Minnesota Gas (GMG)**

3. Accept GMG's FYE18 true-up as filed in Docket No. G-022/AA-18-563; and
4. Allow GMG to implement its true-ups, as shown in Department Attachment G5 of the Department's April 25, 2019, *Review of the 2017-2018 Annual Automatic Adjustment Reports* (Department's Review).

### **Great Plains**

5. Accept Great Plains' FYE18 true-ups, Docket No. G-004/AA-18-567; and
6. Allow Great Plains to implement its true-ups, as shown in Department Attachment G6 of the Department's Review.

### **MERC**

7. Accept MERC-NNG's FYE18 true-up filing in Docket No. G-011/AA-18-489; and
8. Allow MERC-NNG to implement its true-up, as shown in Department Attachment G8 of the Department's Review;
9. Accept MERC-CON's FYE18 true-up filing in Docket No. G-011/AA-18-490; and



10. Allow MERC-Consolidated to implement its true-up, as shown in Department Attachment G9 of the Department's Review;
11. Require MERC to 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, Third Party Damage, in future initial AAA filings.

### **CenterPoint Energy**

12. Accept CenterPoint Energy's FYE18 true-up, Docket No. G-008/AA-18-573; and
13. Allow CenterPoint Energy to implement its true-up, as shown in Department Attachment G10 of the Department's Review;

### Viking Demand Entitlement Error

14. Allow CenterPoint Energy to recover \$224,226 from the 2017-2018 gas year and \$437,060 from the 2018-2019 gas year related to the Viking Demand Entitlement error in its PGA. (CenterPoint) or
15. Disallow recovery of the under-recovered Vikings demand costs associated with CenterPoint's calculation error through April 2019 and require CenterPoint to refund any amounts already collected in its true-up. Allow CenterPoint to recover the full Viking Demand Entitlement amount subsequent to April 2019 when the error was discovered. (Department)

### Variances

16. Determine that a variance to Minnesota Rule 7825.2700 (the PGA Rule), subp. 7 is required and grant the necessary variance to allow CenterPoint Energy to recover the Viking Demand Entitlement error. or
17. Determine that a variance to Minnesota Rule 7825.2920 (the AAA Rule), subp. 2 is required and grant the necessary variance to allow CenterPoint Energy to recover the Viking Demand Entitlement error. or
18. Determine that a variance to Minnesota Rule 7820.4000 is required and grant the necessary variance to allow CenterPoint Energy to recover the Viking Demand Entitlement error. or
19. Take no action

### Demand Entitlement (Docket G-008/M-18-462)

20. Approve CenterPoint's proposed level of demand entitlement and proposed recovery of associated demand costs effective November 1, 2018 adjusted for any action the Commission takes on the Viking Demand Entitlement issue. (Department), and
21. Accept the design-day level proposed by CenterPoint. (Department), and
22. Require CenterPoint to discuss, in future demand entitlement filings, ways of mitigating the reliability risk regarding the loss of peak shaving capability on a peak day. (Department, CenterPoint does not dispute)

### **Xcel Gas**

23. Accept Xcel Gas' FYE18 true-up, Docket No. G-002/AA-18-572; and
24. Allow Xcel Gas to implement its true-up, as shown in Department Attachment G11 of the Department's Review.

### High Bridge Issue

Staff Note: Xcel-Gas has already refunded its customers \$5,181,931 through its true-up between September 1, 2018 and August 31, 2019 (Decision Alternative 25). If the Commission decides any other course of action, Xcel-Gas would need to first unwind the \$5,181,931 that has already been refunded.

25. Approve Xcel Energy's proposed refund in the amount of \$5,181,931 related to the High Bridge Adjustment. (Xcel Energy, Department) or

If the Commission limits the amount it authorizes Xcel Energy to surcharge its electric customers to \$1,512,892, for the misallocations from 2017-2018, the Commission may also want to:

26. Require Xcel Energy to refund \$3,398,250, plus interest, to its natural gas customers for the misallocations from 2015-2018. (Xcel Energy-Alternate under MN Billing Rules interpretation)

**2017-18 Annual Automatic Adjustment Reports—Docket No. G-999/AA-18-374  
Docket Numbers for the Gas Utilities' 2017-2018 True-Up Filings:**

Docket No. G-004/AA-18-567 – Great Plains Natural Gas Company

Docket No. G-022/AA-18-563 – Greater Minnesota Gas, Inc.

Docket No. G-008/AA-18-573 – CenterPoint Energy

Docket No. G-011/AA-18-490 – Minnesota Energy Resources Corporation (MERC) –  
Consolidated PGA system

Docket No. G-011/AA-18-489 – Minnesota Energy Resources Corporation (MERC) –  
Northern Natural Gas PGA system

Docket No. G-002/AA-18-572 – Northern States Power d/b/a Xcel Energy