Xcel Energy®

414 Nicollet Mall
Minneapolis, MN 55401

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November 6, 2019

—Via Electronic Filing—

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

RE: PETITION
EXTENSION OF RULE VARIANCES TO RECOVER THE COSTS OF FINANCIAL INSTRUMENTS THROUGH THE PURCHASED GAS ADJUSTMENT CLAUSE
DOCKET NO. G002/M-19-___

Dear Mr. Wolf:

Northern States Power Company submits to the Minnesota Public Utilities Commission this Petition for approval of a four-year extension of variances to the Purchased Gas Adjustment rules to allow continued PGA recovery of the cost of certain financial instruments used for the purchase of wholesale natural gas supplies for resale to retail natural gas customers.

Our current variances allow us to enter into hedging transactions through June 30, 2020. If the Commission does not issue an order before the expiration of our current variances, we will suspend our hedging program for the 2020-2021 season until such an order is issued. We anticipate placing some hedges before June 30, 2020, but a suspension of our hedging program would leave a significant portion of price exposure unhedged for the 2020-2021 winter season.

Please note that information on gas supplies is designated as Protected Data in this petition and on Attachment A to this filing. Pursuant to Minn. Stat. §13.37, trade secret information is defined in part as government data, including a compilation that: 1) was supplied by the affected individual or organization, 2) is subject to efforts by the individual or organization that are reasonable under the circumstances to maintain secrecy, and 3) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use. The information in this filing meets this definition for the following reasons:

1. Xcel Energy, the affected organization, is supplying the information.

2. Xcel Energy and Xcel Energy Services Inc. (XES), the service company for the Xcel Energy Inc. utility operating companies, make extensive efforts to maintain the secrecy of this information. This information is not available outside the Company except to other parties involved in contracts and to regulatory agencies under the confidentiality provisions of state or federal law, as evidenced by the non-disclosure provisions in the contracts.

3. The information designated as Protected Data derives independent economic value, actual or potential, from not being generally known or being readily ascertainable. If suppliers know the timing and volumes at which the Company will be entering into transactions, the market may use this information in a negative way to increase costs to the ratepayers.

We have electronically filed this document with the Minnesota Public Utilities Commission, and copies have been served on the parties on the attached service list.

Please contact me at lisa.r.peterson@xcelenergy.com or (612) 330-7861 or Jennifer Roesler at jennifer.roesler@xcelenergy.com or (612) 330-1925 if you have any questions regarding this filing.

Sincerely,

/s/

LISA PETERSON
MANAGER, REGULATORY ANALYSIS

Enclosures
c: Service List

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STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

Katie J. Sieben	Chair
Dan Lipschultz	Commissioner
Valerie Means	Commissioner
Matthew Schuerger	Commissioner
John A. Tuma	Commissioner

IN THE MATTER OF THE PETITION OF NORTHERN STATES POWER COMPANY FOR APPROVAL OF AN EXTENSION OF RULE VARIANCES TO RECOVER THE COSTS OF FINANCIAL INSTRUMENTS THROUGH THE PURCHASED GAS ADJUSTMENT CLAUSE

DOCKET NO. G002/M-19-___

PETITION

OVERVIEW

Northern States Power Company, doing business as Xcel Energy, submits to the Minnesota Public Utilities Commission this Petition for approval of a four-year extension of variances to Minn. R. 7825.2400, 7825.2500, and 7825.2700, the Purchased Gas Adjustment rules. Specifically, we request Commission approval to allow the Company to:

- Continue to use financial instruments, such as futures contracts and options, to help reduce the impact of natural gas commodity price volatility for retail gas customers;
- Continue to record the purchase cost of various instruments to FERC Account No. 804 and provide the reports required in Docket Nos. G002/M-01-1336 and G002/M-03-1627;
- Continue to recover the costs of such financial instruments through the PGA, subject to the regulatory oversight of the Department of Commerce and the Commission, and subject to a limit of use of financial instruments to **[PROTECTED DATA BEGINS PROTECTED DATA ENDS]** of the total annual cost of our firm supply portfolio.

Our Petition is consistent with prior approvals, and therefore similarly meets the standards for granting approval of variances under Minn. Rule 7829.3200 as discussed further below. Even in today's low-priced natural gas market, hedging can be used to minimize the level of potential price/cost volatility. In addition, in light of lower natural gas prices, opportunities may exist to lock in the lower prices for future natural gas purchases, thus providing inexpensive natural gas supplies for our customers. Finally, we anticipate using low-cost or minimal-cost hedging instruments to help minimize the costs of hedging for customers in return for protection from potential sharp increases in natural gas prices. Thus, granting our requested variances would serve the public interest by mitigating price volatility risk for our customers.

Our current variances allow us to enter into hedging transactions through June 30, 2020. If the Commission does not issue an order before the expiration of our current variances, we will suspend our hedging program for the 2020-2021 season until such an order is issued. We anticipate placing some hedges before June 30, 2020, but a suspension of our hedging program would leave a significant portion of price exposure unhedged for the 2020-2021 winter season. Our most recent Gas Price Volatility Mitigation Plan (2019-2020) and 2020-2021 hedging plan are included as Attachment A.

I. SUMMARY OF FILING

Pursuant to Minn. R. 7829.1300, subp. 1, a one-paragraph summary of the filing accompanies this Petition.

II. SERVICE ON OTHER PARTIES

Pursuant to Minn. R. 7829.1300, subp. 2, Xcel Energy has served a copy of this Petition on the Office of the Attorney General – Antitrust and Utilities Division. A summary of the filing has been served on all parties on Xcel Energy's miscellaneous gas service list.

III. GENERAL FILING INFORMATION

Pursuant to Minn. R. 7829.1300, subp. 3, Xcel Energy provides the following required information.

A. Name, Address, and Telephone Number of Utility

Northern States Power Company doing business as:
Xcel Energy
414 Nicollet Mall
Minneapolis, MN 55401
(612) 330-5500

B. Name, Address, and Telephone Number of Utility Attorney

Mara K. Ascheman
Senior Attorney
Xcel Energy
414 Nicollet Mall, 401 - 8th Floor
Minneapolis, MN 55401
(612) 215-4605

C. Date of Filing

The date of the filing is November 6, 2019. Should the Commission not issue an order before the expiration of the current rule variances on June 30, 2020, the Company will suspend its hedging program for the 2020-2021 heating season until such an order is issued.

D. Statute Controlling Schedule for Processing the Filing

No statute controls the schedule for processing this filing. Under Minn. R. 7829.0100, subp. 11, the requested variances fall within the definition of a miscellaneous tariff filing, since no determination of Xcel Energy's general revenue requirement is necessary. Under Minn. R. 7829.1400, initial comments on a miscellaneous filing are due within 30 days of filing, with reply comments due 10 days thereafter.

E. Utility Employee Responsible for Filing

Lisa Peterson
Manager, Regulatory Analysis
Xcel Energy
414 Nicollet Mall, 401 - 7th Floor
Minneapolis, MN 55401
(612) 330-7681

IV. MISCELLANEOUS INFORMATION

Pursuant to Minn. R. 7829.0700, Xcel Energy requests that the following persons be placed on the Commission's official service list for this matter:

Mara K. Ascheman
Senior Attorney
Xcel Energy
414 Nicollet Mall, 401 - 8th Floor
Minneapolis, MN 55401
mara.k.ascheman@xcelenergy.com

Lynnette Sweet
Regulatory Administrator
Xcel Energy
414 Nicollet Mall, 401 - 7th Floor
Minneapolis, MN 55401
regulatory.records@xcelenergy.com

Any information requests in this proceeding should be submitted to regulatory.records@xcelenergy.com.

V. DESCRIPTION AND PURPOSE OF FILING

A. Background

The Commission has previously granted the Company variances to the PGA Rules in several dockets: Docket Nos. G002/M-01-1336, G002/M-03-1627, G002/M-08-46, G002/M-12-519, and G002/M-16-88. Through these proceedings, the Commission granted authorization for the Company to recover through the PGA the costs of financial instruments to manage price risks in natural gas supply costs, as well as:

- Authorized an annual hedging cost cap.
- Required reporting requirements in the Company's monthly PGA, Demand Entitlement, and Annual Automatic Adjustment of Charges filings.
- Required the Company to provide the actual final (settled) cost of financial instruments in required reports and to use the actual settled cost to determine the gain or loss on financial instruments.

This Petition is consistent with prior approvals and includes continuation of all prior reporting requirements.

B. Specific Request

In this Petition, we seek Commission approval of variances to the PGA Rules that will allow the Company to:

- Continue our use of financial instruments to mitigate gas price volatility risk;
- Recover such costs through the PGA subject to an annual hedging cost cap of **[PROTECTED DATA BEGINS PROTECTED DATA ENDS]**;
- Continue recording the purchase cost of various instruments to FERC Account No. 804; and
- Continue to provide the reports required in Docket Nos. G002/M-01-1336 and G002/M-03-1627.

Consistent with the Commission's extension of the variances in Docket No. G002/M-16-88, we believe a four-year variance extension, through June 30, 2024, is warranted. If the Commission or Company determines at some point during the extension period that the PGA rule variance for financial instrument cost recovery is resulting in excessive costs to ratepayers, the Commission could prospectively terminate the variance prior to the expiration date.

1. Mix of Financial Instruments

We believe using a mix of financial instruments improves the effectiveness of our efforts to minimize the impact of price volatility on customers. Specifically, we are requesting permission to be a purchaser of Call Options and to utilize Costless Collars in combination with the purchase of a put option, which are outlined below:

A Call Option gives the purchaser the right to buy natural gas at a pre-specified price, but requires the purchaser to pay a premium for that right. The benefit of using a Call Option is it allows Xcel Energy to cap the price that is paid at the strike price plus the premium, and if prices settle below the strike price, the only cost associated with providing this protection to our customers is the premium paid.

A Costless Collar is a financial instrument where Xcel Energy would lock in a price cap and in exchange agree to a price floor. This type of instrument has no premium cost. In the event that the actual market price is below the floor price, Xcel Energy would be required to pay the difference between the floor price and the market price. However, in the event the actual market price is above the price cap, Xcel Energy would receive the difference between the market price and the price cap. The benefit of using a Costless Collar is that customers receive the protection of a "price cap" on the price of gas without paying an upfront premium. In order to manage the settlement cost exposure if market prices were to fall below the floor price, Xcel Energy may purchase an "out of the money" put option to help manage the cost not to exceed the budget amount of **[PROTECTED DATA BEGINS PROTECTED DATA ENDS]**.

Each of these instruments has benefits and costs associated with them, and market conditions will help determine which product is most appropriate to be used within the structure of the hedge program. Attachment B to this Petition provides illustrative examples of how the Company would use these financial instruments to benefit retail customers.

2. Hedging Cap

The Company proposes Annual Gas Hedging Budget for NSP gas sales customers shall be **[PROTECTED DATA BEGINS PROTECTED DATA ENDS]**. The Annual Gas Hedging Budget is based on the Northern Natural Gas Ventura (NNG) At-the-Money call option premium for November 2019 through March 2020 of **[PROTECTED DATA BEGINS PROTECTED DATA ENDS]** per MMBtu times the proposed financial hedge quantity of 13.59 Bcf (discussed below). The Ventura November 2019 through March 2020 At-the-Money call option premium was determined by the lowest of three third-party quotes received by NSP on September 23, 2019.

We believe the proposed cap will be adequate for the Company to continue to provide customers with a hedge that covers approximately 50 percent of their winter commodity gas supply requirements.

C. Customer Benefits

1. Hedging Benefits

The goal of the Company's hedging strategy is to mitigate sharp increases in natural gas prices. The Company acknowledges the final result of our hedging efforts may be higher than purchasing all gas supply in the monthly or daily spot market. However, as has been determined in previous dockets, incurring hedging losses is not necessarily a detriment to customers as the main purpose of hedging is to provide an insurance against catastrophic price increases that affect natural gas customer rates.[1] The goal of mitigating sharp increases in natural gas prices is constant regardless of whether the starting point for natural gas prices is higher, as we experienced in 2007 or 2008, or lower, which we expect to experience for 2020.

In addition, while natural gas prices are at low levels currently, events could occur to cause increases in prices in a relatively short period of time. For example, with

[1] See Docket No. G999/AA-10-885, Staff Briefing Papers at page 29.

sustained low gas prices, commercial and industrial gas usage will likely increase. In addition, ongoing environmental pressure on coal-fired electric generation is prompting many utilities to curtail generation at coal plants and increase gas-fired generation.[2] Both of these would serve to increase demand for natural gas. At the same time, environmental concerns have been raised regarding shale gas exploration, and in particular, induced hydraulic fracking, which is used to release natural gas for extraction. Thus, it is unclear how shale gas exploration may be impacted, and whether natural gas production could be reduced as a result. For these reasons, Xcel Energy continues to believe it is prudent to continue guarding against unexpected market surges in natural gas prices.

2. Low-Cost or Minimal-Cost Hedging Instruments

We recognize that in periods when gas prices are expected to be lower, there may be less willingness to incur hedging losses in exchange for greater price certainty. Although we considered higher levels of protection, we continue to recommend hedging 50 percent of our winter requirements to provide a balance between cost and benefits. We also recommend using low or minimal cost financial instruments. An example of a low-cost financial instrument is an Out-of-the-Money (OTM) call option. With an OTM option, a price cap can be established that that limits the amount of upside price risk, in exchange for a lower up front premium relative to an At-the-Money call option. OTM options may be more attractive in these market conditions as they allow price exposure to be capped well below historically catastrophic levels while minimizing cost. Using OTM options limit the possibility of hedge losses while still providing a certain measure of upside price protection.

3. Longer-Term Hedging Options

The natural gas market has been evolving quickly over a relatively short period of time. While previously it would have been difficult for the Company to enter into a long-term contract for natural gas, more recently, the longer-duration transactions have become more feasible. In particular, five-year contracts for natural gas, with price protection, have become more common. Thus, in light of current market conditions, the Company may be in a position to "lock-in" a price for future natural gas, which, in addition to providing greater price certainty, would also protect against future increases in natural gas prices.

Accordingly, we will consider and evaluate two to five-year hedging opportunities for our customers. In the event that the Company identifies a longer term hedging

[2] The Company has seen this trend growing in the utility industry.

opportunity, the Company will make a separate filing requesting approval of such opportunity in a separate docket.

D. Request for Variance

Implementing our hedging program requires Commission approval of variances from three Commission rules governing the PGA. These rules are:

- Minn. R. 7825.2700 and 7825.2910, subp. 1, which permit natural gas utilities to make filings to adjust retail rates on a monthly basis to reflect changes in the delivered cost of the commodity natural gas, pipeline and contract storage capacity, and peak-shaving supplies purchased for resale.

- Minn. R. 7825.2500(B), which permits an automatic adjustment of charges for "changes in the cost of commodity-delivered gas cost and demand-delivered gas cost for purchased gas."

- Minn. R. 7825.2400, subp. 12, which defines the cost of purchased gas as the cost of gas defined by the Minnesota uniform system of accounts, including specific accounts set forth by the Federal Energy Regulatory Commission (FERC); and defines "demand delivered gas cost" as the portion of the cost of purchased gas "other than the commodity-delivered gas costs," including "associated costs incurred to deliver the gas to the utility's distribution system."

Minn. R. 7829.3200 provides that the Commission may grant a variance to its rules if it finds that:

1. *enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule;*

2. *granting the variance would not adversely affect the public interest; and*

3. *granting the variance would not conflict with standards imposed by law.*

In support of our variance request, we provide the following information.

1. *Excessive Burden Standard*

We have described how the use of financial instruments can be used for the benefit of retail natural gas customers. The requested extension of variances will continue to facilitate our use of financial instruments, allowing us to execute transactions that will benefit customers by mitigating natural gas commodity price volatility risk. Without use of such tools, we believe customers could be burdened by the potentially higher prices and also have greater exposure to wholesale natural gas market volatility. By granting the extension of variances to allow for PGA recovery of these costs, subject to on-going regulatory oversight, we have the ability to more efficiently hedge customers' existing price risk, thereby reducing customer concerns about retail rate volatility.

The Commission's PGA Rules were drafted at a time when use of financial instruments in natural gas commodity purchasing by local distribution companies was not anticipated; thus, cost recovery of such instruments was not addressed. We believe that continued use of financial instruments provides a benefit to retail gas customers through less volatile wholesale commodity gas costs, resulting in less volatile retail gas rates.

2. Public Interest Standard

The public interest would not be adversely affected by granting the requested extension of variances. As the Commission determined in Docket Nos. G002/M-01-1336, G002/M-03-1627, G002/M-08-46, G002/M-12-519 and G002/M-16-88, the limited scope of the financial hedging transactions and the ongoing Department and Commission oversight appropriately protect consumers. The reduced retail rate volatility that can result from use of financial instruments will benefit customers, particularly during periods of high price volatility. Ongoing regulatory oversight of the variance request will assure consistency with a risk minimization strategy.

3. No Conflict with Other Standards Imposed By Law

Since the Commission has previously granted the rule variances in Docket Nos. G002/M-01-1336, G002/M-03-1627, G002/M-08-46, G002/M-12-519 and G002/M-16-88, and has granted similar PGA rule variances to other Minnesota gas utilities, it has previously been determined that a variance to the PGA rules does not conflict with standards imposed by law. As such, the extension should be granted.

VI. EFFECT ON XCEL ENERGY REVENUE

The extension would allow recovery of the costs of financial instruments from Xcel Energy's retail natural customers pursuant to the PGA and annual PGA true-up. The additional revenue would be offset by the costs of the financial instruments and have no net change on the Company's earnings.

CONCLUSION

The Company respectfully requests that the Commission approve a four-year extension of variances to the Purchased Gas Adjustment rules. In addition, we request Commission approval to allow the Company to:

- Continue to use financial instruments such as futures contracts and options, to help reduce the impact of natural gas commodity price volatility for retail gas customers;
- Continue to record the purchase cost of various instruments to FERC Account No. 804, and provide the reports required in Docket Nos. G002/M-01-1336 and G002/M-03-1627;
- Continue to recover the costs of such financial instruments through the Purchased Gas Adjustment, subject to the regulatory oversight of the Department of Commerce and the Commission, and subject to a limit of use of financial instruments to **[PROTECTED DATA BEGINS PROTECTED DATA ENDS]** of the total annual cost of our firm supply portfolio.

Dated: November 6, 2019

Northern States Power Company

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

Katie J. Sieben	Chair
Dan Lipschultz	Commissioner
Valerie Means	Commissioner
Matthew Schuerger	Commissioner
John Tuma	Commissioner

IN THE MATTER OF THE PETITION OF NORTHERN STATES POWER COMPANY FOR APPROVAL OF AN EXTENSION OF RULE VARIANCES TO RECOVER THE COSTS OF FINANCIAL INSTRUMENTS THROUGH THE PURCHASED GAS ADJUSTMENT CLAUSE

DOCKET NO. G002/M-19-___

PETITION

SUMMARY OF FILING

Please take notice that on November 6, 2019, Northern States Power Company, doing business as Xcel Energy, submitted to the Minnesota Public Utilities Commission a Petition for approval of an extension of the variances granted in Docket No. G002/M-16-88 to the Commission's Purchased Gas Adjustment Rules (Minn. R., Parts 7825.2400, 7825.2500, and 7825.2700), to allow continued PGA recovery of the cost of certain financial instruments used for the purchase of wholesale natural gas supplies for resale to retail natural gas customers. The Company requests variance extensions for four years through June 30, 2024.

2019-2020 Gas Price Volatility Mitigation Plan
Northern States Power Company-Minnesota (LDC)
January 2019
Current and Forward Market Outlook

Natural gas prices were stable through the summer season of 2018 as a result of the lack of economic incentive to inject gas into storage, and strength in production. Despite increases in gas-fired power generation the market remained complacent about the potential for higher prices and focused instead on the growth in production volumes. At the end of October 2018, U.S. natural gas storage inventories were 3.2 trillion cubic feet (Tcf), 16% lower than both 2017 and the five-year average for the end of the injection season. Forward basis at hubs across the Midwest saw tremendous upward pressure as the region's storage deficit continued to linger at the end of October. Late-season injections pushed the Midwest's storage deficit to the five-year average to just 107 billion cubic feet (Bcf), down from as much as 165 Bcf during the summer months. However, an early arrival of winter led to substantial withdrawals from storage which widened the deficit again in the Midwest. Colder-than-normal weather across the entire country in November led to larger-than-average withdrawals and the reality of lower inventories became the dominant fundamental factor, overshadowing record production gains. Higher demand in the U.S. has been led by stronger heating and power generation, along with LNG and Mexican exports. U.S. demand from power generation is averaging nearly 25 Bcf/d, outpacing demand over the same period last year by 1.6 Bcf/d or nearly 7%.

According to the EIA, dry natural gas production in the United States averaged 86.9 billion cubic feet per day (Bcf/d) in October, up 8.5 Bcf/d from 2017 due to higher gas production out of multiple regions including the Permian, Haynesville, Marcellus and Utica basins. New takeaway capacity out of the Appalachia area has allowed larger volumes of supply to make its way to downstream markets in the upper Midwest and eastern Canada. Other infrastructure projects have also helped move gas to key demand centers. The EIA expects natural gas production will continue to rise in 2019 to an average of 89.6 Bcf/d, and despite low storage levels, the EIA still expects downward pressure to prices in 2019.

We are currently in a period of high volatility due to the concerns about low storage levels this winter. Natural gas implied volatility averaged 77% in November, the highest volatility in 17 years. Spot prices at the Northern Natural Gas Pipeline (NNG) Ventura locations have been trading above $4.00 since the middle of November, up over 45% since last year at this time, underscoring the continued need for a seasonal gas price volatility mitigation effort by the Company as set forth in the Gas Price Volatility Mitigation Plan (GPVM) for the Gas Department.

Definition of Volatility

This plan is titled "Gas Price Volatility Mitigation Plan", however it should be noted that the academic definition of the word volatility is not being used in the title or throughout this document. For purposes of this document, the "volatility" that the plan is mitigating against is sharp upward price movement only. It is assumed in this document that downward price "volatility" is considered beneficial to the ratepayers and therefore the plan does not specifically attempt to mitigate downward price volatility.

Price Volatility Mitigation Goals

The overall goal of the Company's Price Volatility Mitigation Plan is to reduce the exposure to and the magnitude of gas price spikes at a reasonable cost to Northern States Power Company – Minnesota's (NSPM) customers. The goal of the plan is not to attempt to outguess the market or to speculate on the future direction of energy prices. In the development and implementation of the plan, the Company realizes that the final result of the Company's efforts may be higher prices than purchasing all gas supply on the monthly spot market. However, the Company maintains that price volatility mitigation is important to protect the Company and its customers from the risk of paying very high gas prices due to unforeseeable market conditions or events.

The targeted hedge volume for NSPM's gas portfolio is approximately 50% normal requirements for the months of November 2019 through March 2020. The Company will use storage to hedge approximately 25% of the normal winter requirements and financial instruments to hedge the remaining 24%. Due to the limited amount of gas used in the summertime by the LDC customers, no summer volumes have been included in the seasonal hedging plan.

Budget

The proposed Annual Gas Hedging Budget for NSP gas sales customers shall be **[PROTECTED DATA BEGINS PROTECTED DATA ENDS]** as approved in Docket No. G002/M-16-88. Docket No. G002/M-16-88 extends the hedge variance through June 30, 2020. The Annual Gas Hedging Budget is based on the Northern Natural Gas Ventura (NNG) At-the-Money call option premium for November through March of **[PROTECTED DATA BEGINS PROTECTED DATA ENDS]** per MMBtu times the proposed financial hedge quantity of 13.6 Bcf (discussed below). The Ventura November through March At-the-Money call option premium was determined by the lowest of three third-party quotes received by NSP on January 19, 2016.

Price Volatility Mitigation Long-Term Strategy

The ability to export natural gas, the potential increase in gas fired generation and future economic conditions create uncertainty and the potential for fundamental market changes leading to long term price increases. Therefore the Company proposes to make a separate filing requesting approval of hedges beyond the upcoming winter season in a separate docket when it identifies such long-term (two to five years) hedging opportunities

The long-term price volatility mitigation strategy will focus on a time horizon of two to five years. This time horizon and corresponding strategy will allow customers to avoid a portion of the price risk related to significant increases in gas prices that may last for longer periods of time. The utilization of a long-term strategy will allow the Company to mitigate the effects of this type of price risk while allowing the seasonal strategy to mitigate the effects of the shorter-term, peak demand month price spikes.

Note: The settlement costs of any hedges entered into as part of the long-term plan will be counted against the annual budget for the heating season in which the hedges are settled.

Price Volatility Mitigation Seasonal Strategy

The purpose of the seasonal component of the strategy is to reduce the potential risk of short-term upsets in the wholesale gas markets and the resulting gas price spikes. The seasonal strategy will allow for gas prices to be hedged between the months of April 2019 through October 2019. This timeframe allows the Company to analyze market data regarding production trends, demand trends and storage inventory levels in making its hedging decisions. The seasonal nature of the strategy is intended to provide a desired level of price risk protection while maintaining a balance between market premiums and overall plan costs.

The overall hedge volumes and monthly volumes to be hedged are identified on the monthly volume schedule (Schedule PVM-1) of this document. To allow for a more cost-effective approach to the hedging activity, the targeted volume may be modified for any month to allow a more even volume to be hedged. A minimum monthly hedge volume of three contracts with a volume of no less than 5,000 MMBtu per day will be executed per month. Schedule PVM-1 incorporates a dollar cost averaging approach where the Company will layer in the volume over the planned implementation period. The layering approach spreads the timing risks of the hedging decision over the full plan horizon and ensures that the Company will not enter into all or a very large percentage of the hedged volume at the peak of the market.

The Company will use a mix of call options, costless collars, and put options to implement the financial component of the hedge plan. The **[PROTECTED DATA BEGINS PROTECTED DATA ENDS]** budget for financial instruments will be managed by adjusting the strike prices of both the call and put options to ensure that settlement costs do not exceed the budgeted amount.

Implementation Strategy

In implementing the Company's Price Volatility Mitigation Plan, the Company will use its best judgment to select the days to complete the hedging activity. On the selected day(s) the Company will complete the hedging transaction as identified in the Volume Schedule. In order to provide flexibility to deal with the timing of weather events at the beginning or end of a month, the Company may hedge the monthly volumes ten days before and ten days after the original targeted month.

Adjustment as a result of Counterparty Default

In the event that counterparty defaults on a hedged transaction, NSPM will apply the following guidelines in determining whether to leave the position open or to replace the position:

a) If the Company, as the result of a default by the counterparty, is required to pay the counterparty to settle a fixed-for-float swap or costless collar, the Company will replace the defaulted position with a new fixed-for-float swap for the same period and in the same quantity of the defaulted position.

b) If the Company, as the result of a default by the counterparty, receives none or only a portion of the positive benefit that would be due as a result of a positive mark on the defaulted hedged position, the Company will replace the hedge with the appropriate instrument for the current price level, provided that it has budget dollars available under the hedge plan. If no hedging dollars are available, the position will be left un-hedged. The available hedging dollars will be the difference between the approved budget for that particular Gas Purchase Year, less any option premiums paid in implementing that year's seasonal hedging strategy.

Conclusion

In conclusion, the overall goal of the program is to reduce the exposure to and magnitude of upward gas prices fluctuations for the 2019-20 heating season at a reasonable cost to NSPM's customers. To accomplish this, the Company is implementing a strategy that will protect approximately 50% of the winter requirements from significant exposure to gas price fluctuations. Also, in order to keep hedging costs within the maximum hedging budget for Northern States Power of **[PROTECTED DATA BEGINS PROTECTED DATA ENDS]**, a mix of hedging instrument including costless collars, put options and call options will be utilized.

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2020-2021 Hedge Budget (Dth)

	Volume Requirements	Storage	Hedge Plan	Total Vol Hedged	% Hedged
June	2,444,949				
July	1,998,483				
August	2,098,177				
September	2,328,791				
October	4,460,579				
November	8,848,893	867,833	2,700,000	3,567,833	40.32%
December	12,665,350	2,578,686	2,790,000	5,368,686	42.39%
January	14,384,580	5,073,564	2,790,000	7,863,564	54.67%
February	11,969,380	3,883,101	2,610,000	6,493,101	54.25%
March	10,159,772	1,782,383	2,790,000	4,572,383	45.00%
April	6,029,975				
May	3,940,129				
	81,329,058	14,185,567	13,680,000	27,865,567	48.02%
Winter Totals	**58,027,975**	**24.45%**	**23.57%**	**48.02%**	

Monthly Volumes (Seasonal Hedges)

	November	December	January	February	March	Total
	[PROTECTED DATA BEGINS					
April						
May						
June						
July						
August						
September						
October						
Total						13,680,000

PROTECTED DATA ENDS]

Dth/Day (Seasonal Hedges)

	November	December	January	February	March
	[PROTECTED DATA BEGINS				
April					
May					
June					
July					
August					
September					
October					

PROTECTED DATA ENDS]

Examples of Financial Instruments

Example 1: Call Option Contract

Xcel Energy purchases a January 2019 10,000 Dth/day call option with a strike price of $3.80 per Dth and a premium of $0.50 per Dth settled against the *Inside FERC* NNG-Ventura index. The premium of $155,000 ($0.50 x 10,000 Dth x 31 days) or $0.50 per Dth is paid at the time the option is purchased. In January 2019, the NNG-Ventura index price of gas is published at $5.00 per Dth. As a result of the index price being published higher than the strike price, Xcel Energy receives $372,000 ($5.00-$3.80 x 10,000 Dth x 31 days) or $1.20 per Dth hedged. This gain less the initial premium costs is applied through the PGA and offsets the $5.00 per Dth cost of the physical gas. The resulting gas price to the retail customers is $4.30 per Dth for the hedged volumes.

It is important to note that if the *Inside FERC* NNG-Ventura index settles at $2.30 per Dth, the result of the index price being published lower than the strike price means the customers benefit from the lower index price; however this benefit could be fully or partially offset by the initial premium that was paid. In this scenario, the customers would purchase physical gas at $2.30 per Dth versus the $3.80 per Dth strike price; however the $0.50 per Dth premium cost would be applied through the PGA with a resulting gas price to customers of $2.80 per Dth.

Example 2: Costless Collar Contract

Xcel Energy contracts for a Costless Collar with a floor price of $3.50 per Dth and a cap price of $5.00 per Dth. In February 2019, the *Inside FERC* NNG-Ventura index price of gas is published at $5.50 per Dth. Since the cap is set at $5.00 per Dth, the customers experience a benefit of $0.50 per Dth or $140,000 ($0.50/Dth x 10,000 x 28 days) total for the month. If the index price is published at $4.00 per Dth, there is no cost or benefit to the customers, because the index is between the floor and the cap prices.

It is important to note that if the *Inside FERC* NNG-Ventura index price for February 2019 is published at $3.00 per Dth, Xcel Energy would recognize a loss of $0.50 per Dth (monthly cost of $140,000). In this case, Xcel Energy would purchase the physical gas at $3.00 per Dth plus the $0.50 per Dth that result from the index price being below the price floor of the Costless Collar. Both of these amounts would be applied through the PGA with a resulting cost to customers of $3.50 per Dth.

CERTIFICATE OF SERVICE

I, Jim Erickson, hereby certify that I have this day served copies or summaries of the foregoing document on the attached list of persons.

xx by depositing a true and correct copy thereof, properly enveloped with postage paid in the United States Mail at Minneapolis, Minnesota

xx electronic filing

XCEL ENERGY'S MISCELLANEOUS GAS SERVICE LIST

Dated this 6th day of November 2019

/s/
____
Jim Erickson
Regulatory Administrator

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Christopher	Anderson	canderson@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022191	Electronic Service	No	GEN_SL_Northern States Power Company dba Xcel Energy-Gas_Xcel Miscl Gas
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