BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendrayer	Chair
Marshall Johnson	Commissioner
Ken Nickolai	Commissioner
Phyllis A. Reha	Commissioner

In the Matter of the Petition of Northern States Power Company d/b/a Xcel Energy, for Approval of a Monthly Demand Cost True-up Mechanism and a Variance from the Commission's Automatic Adjustment Rules	ISSUE DATE: June 11, 2004 DOCKET NO. G-002/M-03-843 ORDER APPROVING A MONTHLY DEMAND COST TRUE-UP MECHANISM WITH REQUIREMENTS AND GRANTING A VARIANCE UNTIL SEPTEMBER 30, 2006

PROCEDURAL HISTORY

On May 30, 2003, Northern States Power Company d/b/a Xcel Energy (Xcel or the Company) filed a petition requesting approval to implement a Monthly Demand Cost True-up Mechanism, stating that a monthly true-up would provide a more accurate and timely matching of costs with the purchased gas adjustment (PGA) mechanism. Xcel also requested a three year variance to Minn. Rules Part 7825.2700, subp. 5.

On August 29, 2003, the Department of Commerce (DOC) filed comments recommending that the Commission deny Xcel's petition. In the alternative, if the Commission were to approve Xcel's petition, the DOC recommended certain modifications.

On September 19, 2003, Xcel filed reply comments.

The matter came before the Commission on May 27, 2004.

FINDINGS AND CONCLUSIONS

I. Xcel's Proposal

A. Background

Gas costs are classified as either commodity-related or demand-related costs within the PGA. Xcel stated that within nine of the last ten heating seasons, commodity cost recovery through the PGA has been reasonably accurate. However, demand-related cost recovery in this same period has significantly deviated from demand costs incurred because of usage that deviated from "normal" weather usage. The existing PGA mechanism establishes monthly rates based on estimated cost information for both demand and commodity costs. However, because the PGA demand cost component is based on a sales forecast that assumes "normal" weather during the upcoming month, demand-related cost recovery is susceptible to the vagaries of weather during the month.

Xcel stated that in 1995-96, a colder than normal year, the Company over-recovered demand related costs by $7.1 million or 11.8 percent. On the other hand, Xcel indicated that it under-recovered demand related costs by $10.2 million or 16.2 percent in the 1999-2000 annual PGA true-up, which was based on a warmer than normal year. Xcel indicated that the inaccuracy of demand cost recovery results from factors that are out of the Company's control such as abnormal weather and timing of upstream pipeline rate changes approved by the Federal Energy Regulatory Commission (FERC).

Xcel acknowledged that the Commission's rules provide for an annual true-up, which assures that there is ultimately no over-or under-recovery. However, Xcel argued that the year to year over-or under-recovery of demand costs leads to significant cost shifts between customers from one year to the next and can have financial impacts for the customers and the Company.

In order to mitigate large year-to-year over- or under-recovery, Xcel requested a variance to the PGA provisions to include a new monthly demand true-up process.

b. Description of the Proposal

Xcel proposed implementing a monthly demand true-up mechanism within the PGA in order to minimize the deviation in recovery of demand-related costs.

Xcel proposed to continue to use the current demand rate recovery calculation methodology as set forth in Minnesota Rules[1] but the Company would calculate a monthly demand true-up to be included in the demand rate for the subsequent month. Xcel proposed to continue to apply the existing annual true-up calculation to both commodity and demand costs in order to insure a final annual true-up of any remaining costs not accounted for in the monthly demand true-up.

Xcel proposed a one month lag in the application of this monthly demand true-up in order to enable the use of actual revenue and cost information for the historic month.

Further, Xcel requested that the monthly demand true-up be effective from October through May. It did not propose a rate adjustment for June, July or August. The Company also recommended that the monthly under-or over-recovery rate components be limited to a maximum of 25 percent of the base demand rate in order to mitigate any price volatility associated with the monthly demand true-up.

[1] Minn. Rules Part 7825.2700, subp.5.

Xcel stated that its total revenue recovery will be unaffected by a monthly demand true-up. Rather, Xcel argued that the monthly demand true-up will cause a timing change that will provide a better match between demand cost recovery and demand cost on an annual basis. The ultimate cost to the customer would be unchanged, but the annual PGA true-up would be reduced because of the improved timing of the cost recovery.

Xcel indicated that had this mechanism been in place in the colder-than-normal 1995-96 true-up year and the warmer- than-normal 2001-02 true-up year, the annual over-recovery would have been $5,362,821 less than the actual over recovery and the under-recovery would have been decreased $5,749,803 or 89 percent. In both of these cases, the gas customers in one true-up year either paid more than or less than the cost incurred by the Company, and this over-or under-recovery of costs shifted to the ratepayers taking gas service from the Company in the following year.

II. Xcel's Variance Request

Xcel requested a three year variance from Minn. Rules Part 7825.2700, subp. 5 in order to accommodate a meaningful test of the proposed new monthly demand true-up. Xcel argued that enforcement of the current demand adjustment rule has resulted in significant over-and under-recovery of demand related costs with negative cost shift impacts for retail customers. Granting the variance to the demand adjustment rule will allow the Company to mitigate the potential that its future customers will experience a similar demand cost shift, and will price the Company's current service to more accurately reflect the demand costs being incurred by the Company to provide the service.

III. DOC's Position

The DOC argued that Xcel has not shown the reasonableness of its request. The DOC argued that Xcel's proposal could result in a larger annual demand cost/recovery mismatch and year-end true-up adjustment, an increase in monthly price volatility and a greater monthly mismatch of costs and recovery.

The DOC questioned the examples that Xcel gave. It questioned Xcel's example of how its proposed adjustment might work in a colder than normal year because Xcel made no adjustment for seasonal rates, which are currently in effect. The DOC also indicated that the examples Xcel used did not consistently use either all calendar or all billing month volumes and rates and did not provide a clear and consistent assessment of the impacts of the Company's proposal.

Further, the DOC disagreed that Xcel's proposal to limit the monthly under-or over-recovery rate components to a maximum of 25 percent of the monthly seasonal PGA demand rates would prevent Xcel's proposed monthly demand true-up mechanism from increasing price volatility. The DOC recommended that if the Commission were to approve the proposal, Xcel be required to limit the sum of the monthly demand true-up adjustment and the monthly PGA demand rate to a maximum of 125 percent of the levelized demand rate in the months of November through March. The DOC argued that this would moderate the monthly price volatility and limit the high season demand rates that could occur under Xcel's proposal.

The DOC recommended that if the Commission were to allow Xcel to go forward with its proposal that the Commission require Xcel to:

- limit (or cap) the sum of the monthly demand true-up adjustment and the Company's Demand Cost Recovery Rate[2] to a maximum of 125 percent of the levelized demand rate during the months of November through March;

- consistently use all calendar month volumes and rates in its calculation of the monthly demand true-up adjustment;

- provide a detailed calculation of the adjustment factor in a separate schedule attached to the Company's monthly PGA filing;

- identify the adjustment and the resulting total non-demand billed Demand Cost Recovery Rate for the month as separate line items on page 3 of Schedule A of its monthly PGA filing.

The DOC also recommended that Xcel be required to separately identify (by customer class) the monthly demand true-up revenues and to summarize the following for each firm non-demand billed customer class in the Company's annual true-up filings:

- the annual demand cost recovery absent the adjustments;
- the total annual adjustment recovery; and
- the remaining current year demand cost recovery true-up balance.

IV. Xcel's Response

Xcel stated its acceptance of the DOC's proposed cap that limits the increase in demand rates to125 percent of the prior month's PGA demand rate. Xcel also accepted the DOC's reporting requirements. At hearing the Company agreed to a variance until September 30, 2006.

V. Commission Action

Under Minn. Rules 7829.3200 the Commission may grant a variance to any of its rules upon making the following findings:

---

[2] The Demand Cost Recovery Rate is the amount of demand cost that a firm customer is billed for 1 therm of natural gas consumption.

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

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

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

The Commission concurs with the Company that these standards have been met and that these variances should be granted.

Enforcement of the rule would impose an excessive burden upon the Company's customers. Presently, gas customers in one PGA true-up year can pay either significantly more or less than the cost incurred by the Company. This under-recovery or over-recovery shifts to the ratepayers that take gas from the Company in the following year, which may impose a financial burden on customers. Customers who move away cannot recoup any overpayment, and new customers will be responsible for overpayments that were incurred by others. Further, since there is no carrying charge applied to this over-or under-recovery, both customers and the Company can be financially harmed by large balances.

Granting the variance would not adversely affect the public interest. Rather, granting the variance will allow the Company to mitigate the potential that future customers will experience an extreme demand cost shift and will allow the Company to price the Company's current service to more accurately reflect the demand costs being incurred by the Company to provide the service.

Finally, granting the variance will not conflict with any standards imposed by law.

For these reasons the Commission will vary Minn Rules Part 7825.2700, subp. 5 and approve the Company's proposed monthly demand revenue true-up adjustment. However, the Commission will grant Xcel a variance from the PGA rules only until September 30, 2006. This will give the Company adequate time to compile pertinent data and determine if the program is working as contemplated.

Further, the Commission is in agreement with the DOC's recommendation, and the Company's agreement, to limit the sum of the monthly demand true-up adjustment and the Company's Demand Cost Recovery Rate to a maximum of 125 percent of the levelized demand rate during the period from November through March. The Commission will do so in order to moderate any monthly price volatility and limit the high heating season demand rates that might possibly occur.

The Commission will also require the Company to consistently use all calendar month volumes and rates in calculating the monthly demand true-up adjustment and to provide the reporting information recommended by the DOC in its comments and set forth in Section III herein.

Finally, the Commission will require Xcel to provide its methodology and calculations used to convert the billing month sales into calendar month sales when the Company files its first PGA with a monthly demand cost true-up. The Commission requests that the DOC review this data provided by the Company and file an informal report with its analysis and conclusions.

ORDER

1. Xcel's proposed monthly demand cost true-up adjustment is approved with the following requirements:

    a. Xcel shall limit the sum of the monthly demand true-up adjustment and the Company's Demand Cost Recovery Rate to a maximum of 125 percent of the levelized demand rate during the months of November through March;

    b. Xcel shall consistently use all calendar month volumes and rates in its calculation of the monthly demand true-up adjustment;

    c. Xcel shall provide a detailed calculation of the adjustment factor in a separate schedule attached to the Company's monthly PGA filing;

    d. Xcel shall identify the adjustment and the resulting total non-demand billed Demand Cost Recovery Rate for the month as separate line items on page 3 of Schedule A of its monthly PGA filing; and

    e. Xcel shall separately identify (by customer class) the monthly demand true-up revenues and summarize the following for each firm non-demand billed customer class in the Company's annual true-up filings:

        - the annual demand cost recovery absent the adjustments;
        - the total annual adjustment recovery; and
        - the remaining current year demand cost recovery true-up balance;

    f. Xcel shall provide its methodology and calculations used to convert the billing month sales into calendar month sales when the Company files its first PGA with a monthly demand cost true-up. The Department is requested to review this data and file an informal report with the Commission on its analysis and conclusions.

2. The Commission hereby grants Xcel a variance to Minn. Rules Part 7825.2700, subp.5 until September 30, 2006.

3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)

This document can be made available in alternative formats (i.e., large print or audio tape) by calling (651) 297-4596 (voice), or 1-800-627-3529 (MN relay service).