



NATURAL GAS PURCHASING STRATEGY AND THE FEBRUARY 2021 WEATHER EVENT

Richard Derryberry, Mgr., Gas Resource Planning
Lisa Peterson, Mgr., Regulatory Analysis

Case No. PU-21-102
May 5, 2021

© 2021 Xcel Energy

7 PU-21-102 Filed 05/05/2021 Pages: 18
Presentation from 5 May 2021 Informal Hearing
Northern States Power Company

14 PU-21-9 Filed 05/05/2021 Pages: 18
Presentation from 5 May 2021 Informal Hearing
Northern States Power Company



NATURAL GAS DISTRIBUTION SYSTEM

Overview



Overview

- Xcel Energy provides natural gas distribution service to 1.8 million customers in MN, CO, WI, MI, and ND
- NSPM natural gas customers
 - ~ 470,000 in MN
 - ~ 60,000 in ND (Fargo, Grand Forks, and nearby towns)
- “Design Day” capacity at -33° F daily average
 - NSPM Co. - 860,000 Dth
 - NSP-ND - 110,000 Dth or ~13% of NSPM
- ND peak winter – 107,000 Dth; summer average – 21,000 Dth (20% winter)
- Design Day and hedging plans reviewed and approved by the Minnesota PUC

NSP Supply Areas

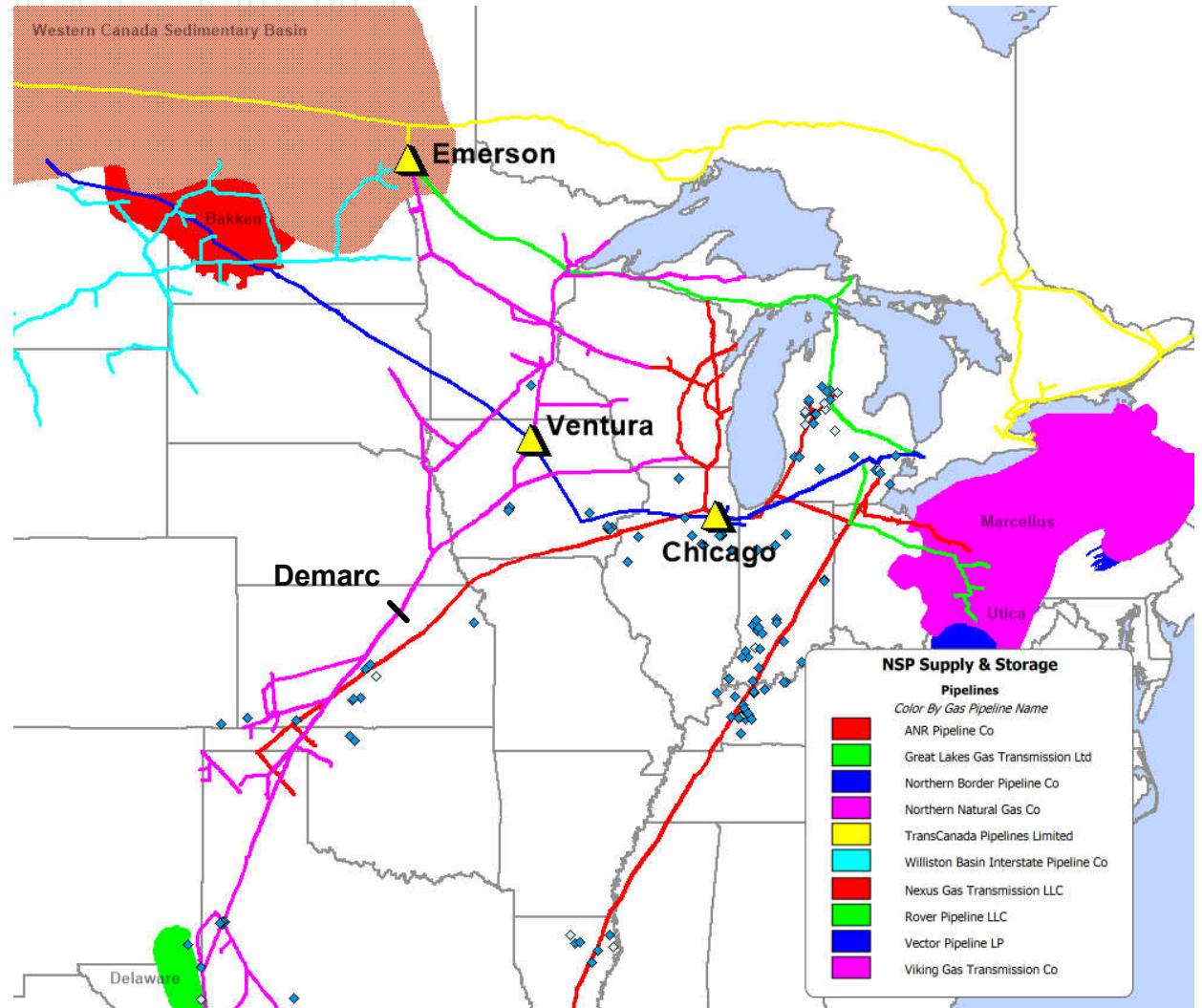
Market Centers

Bakken at Ventura

Western Canada at Emerson

Southwest U.S. at Demarc

Chicago Hub





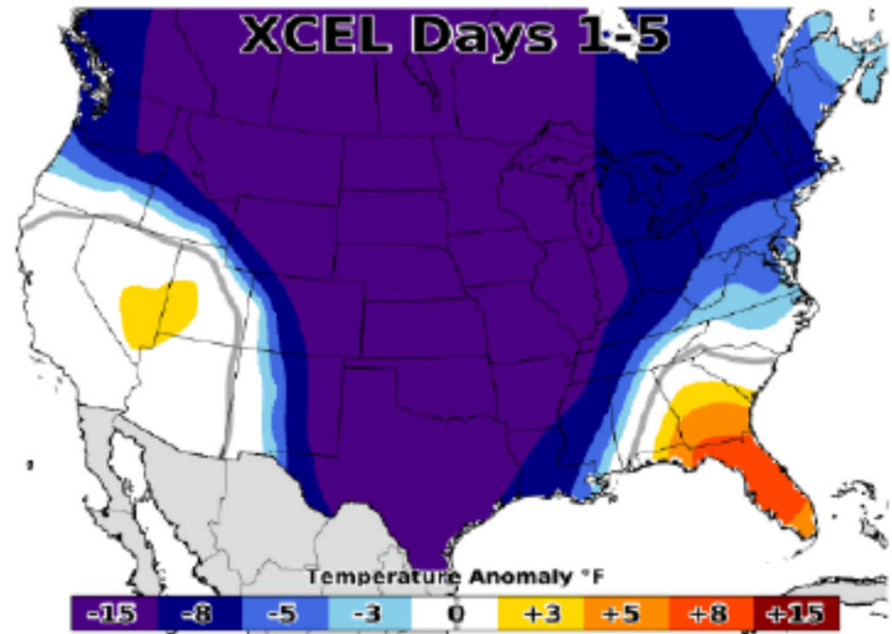
FEBRUARY COLD WEATHER EVENT

What Happened?



Presidents Day Weekend

- Protracted cold weather over most of U.S.
- Not as cold as a Design Day
- Gas purchased for 4-day weekend
- U.S. supply dropped 17% over weekend
- SW supply dropped 39% due to freeze-offs
- Daily prices: avg \$188/Dth; high \$400/Dth
- NSPM average cost: \$76/Dth
- All NSPM firm service maintained





NATURAL GAS PROCUREMENT

Planning and Strategy



Baseload Gas Purchases

- Purchase longer-term gas for warmest expected days of month
- Purchased over the summer and beginning of each month
 - Non-varying quantities and price each day of month
 - Use Request for Proposals and bi-lateral negotiations
 - Buy from roughly 30 producer/marketers
- Gas supplied from liquid, market centers
- Avoid buying excess gas that create extra costs
- Locked-in supplies/prices provide physical and financial hedge for winter
- Majority of demand in warmer months with storage filling in where needed

Underground Storage Gas

- Storage gas used more as days grow colder
- We hold firm storage on three pipelines (190,000 Dth withdrawal in Feb)
- Gas injected over summer for winter withdrawal
- Varying quantities each day to meet changing demand
- Critical balancing service for differences between actual and forecasted loads
- Storage gas withdrawn by end of winter
- Price certainty and supply for physical winter needs
- Primary tool for serving variable needs over the winter

Daily Purchases

- Used when cold weather demand exceeds baseload plus storage
- Purchased daily at average reported price for gas sold that day
- Quantities vary each day
- Eliminates longer-term contracts resulting in excess, unused gas
- Only pay for it when used
- Daily prices have been similar to or below baseload prices
- Important tool for addressing varying cold weather needs

Financial Hedging

- NSPM targets 25% of projected winter usage for financial hedges
- Financial hedges based on first-of-month price
 - current hedges protect against longer-term price increase
 - do not protect against daily price spike
- Daily price protection limited availability and prohibitively expensive
 - financial hedge quantities should not exceed projected daily gas needs
 - sellers won't commit to sell large quantities on a peaking basis
- We will monitor market for financial products offsetting daily price risk

Summary

- Demand unusually high from widespread and protracted cold
- Curtailed all Fargo interruptible customers
- NSPM baseload and storage fully used
- Purchased gas for 4-day weekend (Sat. –Tues.) on Fri. morning
- All firm service maintained
- Unprecedented prices from higher-than-normal demand and supply loss
- NSPM spent \$247 million over forecasted February costs due to higher gas prices (\$32.5 million for North Dakota)



PROPOSED TRUE-UP METHODOLOGY

Extended time frame and seasonal rates



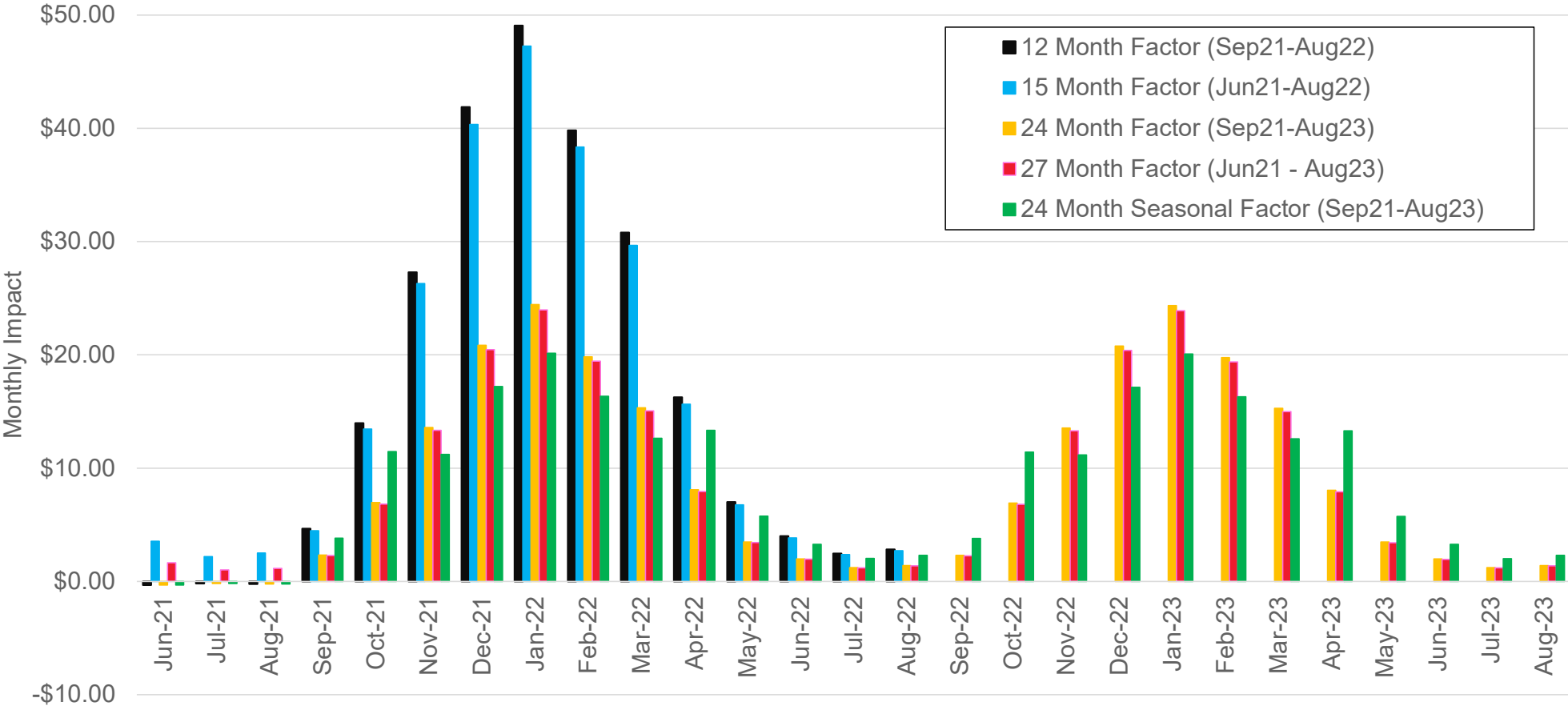
Gas Cost Recovery – Current Process

- Monthly *Cost of Gas Rider* (COG) rates are set before each month begins, based on forecasted gas costs and retail sales
- Actual gas costs are compared to actual COG revenues to determine over-or under-recovery for the gas year (July through June)
- The annual COG true-up calculation and rate factor is filed September 1
- The annual COG true-up factor for each class is reflected in the monthly COG rates for the upcoming 12-month period beginning September 1

February Weather Impact – Est. Gas Cost Under-Recovery

<u>Customer Class</u>	<u>(Millions)</u>
Residential	\$12.4
Commercial and Industrial	\$17.2
Small Interruptible	\$1.1
Large Interruptible	<u>\$1.8</u>
Total	\$32.5

True-up Scenarios – Residential Bill Impact Comparison



Note: The average January bill is about \$70, and the average July bill is about \$20

True-up Proposals

	Xcel Energy ND	Xcel Energy MN	Center Point MN	MERC MN	Great Plains MN	Xcel Energy WI
Event Impact (approx.)	\$33 million	\$215 million	\$500 million	\$75 million	\$11 million	\$45 million
Avg. Residential Impact	\$240	\$270	\$354	\$225-250	\$280	\$200
Recovery Start	Sept 2021	Sept 2021	May 2021	Sept 2021	May 2021	Apr 2021
Recovery Period	24 months	24 months	24 months	12 months	28 months	9 months*
Structure of Surcharge	Per Therm, Seasonal	Per Therm, Seasonal	Per Month, Seasonal, Doubles Yr 2 Carrying Chg of 0.7%	NA	Per Therm, Seasonal Rates increase by \$1.00 per Dk every 12 Months	Per Therm

* The normal true-up period for Xcel Energy in Wisconsin is 2 months

