

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
Commissioner
Commissioner
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In the Matter of the Application of
Northern States Power Company for Authority
to Increase Rates for Electric Service in the
State of Minnesota

ISSUE DATE: August 31, 2015

DOCKET NO. E-002/GR-13-868

ORDER REOPENING, CLARIFYING,
AND SUPPLEMENTING MAY 8, 2015
ORDER

PROCEDURAL HISTORY

On May 8, 2015, the Commission issued its Findings of Fact, Conclusions, and Order (the May 8 Order) in this rate case.

Among other things, the May 8 Order required the company to: (a) re-run its Class Cost of Service Studies (CCOSS); (b) set the class revenue apportionment consistent with the Commission's decision; and (c) propose an interim rate refund. In anticipation of the May 8 Order, Xcel filed preliminary schedules on April 30 and May 1 for the purpose of satisfying these requirements. The Commission issued notices establishing a May 28 deadline for comments on Xcel's filings.

On May 28, 2015, Xcel, the Minnesota Department of Commerce (the Department), and the Office of the Attorney General – Residential Utilities and Antitrust Division (the OAG) each filed petitions for reconsideration of the May 8 Order. Xcel's and the Department's petitions also included requests for clarification.

Also by May 28, the Department, the OAG, and AARP filed comments on Xcel's interim rate refund proposal, and the Department and the OAG filed comments addressing the Company's revised CCOSS and class revenue allocation schedules, disputing aspects of the Company's methods and proposals.

On June 8, 2015, Xcel filed reply comments on the CCOSS and revenue apportionment schedules.

On June 8, 2015, Xcel, the Department, and the OAG filed responses to the petitions for reconsideration.

On July 9, 2015, the Commission met to consider the matter.

On July 13, 2015, the Commission issued an order denying the petitions for reconsideration.¹

¹ Order Denying Petitions for Reconsideration (July 13, 2015).

FINDINGS AND CONCLUSIONS

I. Background and Summary of Commission Action

In its May 8 Order, the Commission addressed more than 30 contested issues relating to Xcel's request to increase retail electric rates in 2014 and 2015. The order required further action by the Company, and left several key issues to be resolved following future compliance filings.

Additionally, both before and after the Commission deliberated on the request, matters related to the rate case that were not ripe for decision in the May 8 Order continued to develop. And, Xcel, the Department, and the OAG requested reconsideration or clarification on several issues.

The Commission has already denied the requests for reconsideration brought by the parties, but in this order it will re-open the May 8 Order for clarification and to address issues not fully resolved by that order, for the reasons set forth below. The Commission will address the following:

- **Monticello LCM/EPU**—How did the Commission intend for the Company to account for depreciation of the Monticello nuclear power plant Life-Cycle Management/ Extended Power Uprate (LCM/EPU) project? And, was the EPU in service as of January 1, 2015?
- **Revenue Decoupling Mechanism**—How should the Company implement decoupling in the event that it seeks a rate increase for 2016?
- **Class Cost of Service Studies**—Did the Company comply with the May 8 Order's requirement to re-run the Class Cost of Service Studies with Commission-ordered modifications?
- **Class Revenue Apportionment**—Did the Company's proposed class revenue apportionment comply with the May 8 Order?
- **Interim Rate Refund Plan**—How must the interim rate over- or under-collection in the context of the approved multi-year rate plan be calculated and refunded/recovered?
- **Passage-of-Time in Future Multi-Year Rate Cases**—Should the Commission require additional detail on this issue in future multi-year rate proceedings?
- **Sherco 3 Insurance**—How should the Company return proceeds of the insurance recovery to ratepayers?
- **Babcock & Wilcox Settlement**—Is the Company's proposed refund arising from the settlement of this litigation acceptable?
- **2014 Property Tax**—Is the Company's property tax expense proposal acceptable?

II. Monticello LCM/EPU Depreciation

A. Introduction

In December 2013, the Commission opened Docket No. E-002/CI-13-754 to investigate the prudence of costs Xcel incurred in a Life-Cycle Management/Extended Power Uprate (LCM/EPU) project at its Monticello nuclear power plant. The project experienced cost overruns of approximately \$333 million out of total project costs of approximately \$748 million.

The Commission found that Xcel's management of the LCM/EPU project had been imprudent.² Because the record did not permit quantification of the precise amount of costs that had been caused by Xcel's imprudence, the Commission, rather than disallowing recovery of particular expenditures, denied Xcel a return on the \$333 million overrun. The Commission ordered that the disallowance be incorporated into this rate case.

Xcel's preliminary rate-case compliance filing included a \$17.95 million reduction to its 2015 revenue requirement that reflected a reduced return for the Monticello LCM/EPU project.³ The Company calculated this reduction by subtracting a prorated share of the project's accumulated depreciation and deferred taxes from the overrun amount and applying Xcel's allowed rate of return to the difference.

B. Positions of the Parties

The Department argued that Xcel's calculations failed to reflect the disallowance of a return on the entire \$333 million overrun. The Department recommended that all accumulated depreciation for the LCM/EPU project be assigned to the portion of the project for which Xcel is allowed a return, and none deducted from the no-return portion. This adjustment would reduce Xcel's 2015 revenue requirement by another \$2.1 million.

Xcel argued that it had accounted for LCM/EPU depreciation according to established ratemaking practice. The project was placed in service over several years beginning in 2008, and Xcel has already recorded several years' worth of depreciation on certain components. The Company maintained that the Commission's imprudence finding applied to the project as a whole, and provided no basis to distinguish between prudent and imprudent components. Thus, Xcel argued, it appropriately accounted for accumulated depreciation by assigning proportionate amounts to the return-earning and no-return portions of the LCM/EPU project.

C. Commission Action

The Commission agrees with the Company that all LCM/EPU accumulated depreciation should be allocated on a prorated basis between those project costs on which Xcel is allowed to earn a return and those on which it is not.

Xcel has recorded depreciation on LCM/EPU components that were placed in service before 2015. These depreciated components involved both prudent and imprudent costs. However, as the Commission found in the Monticello prudence investigation, the particular prudent and imprudent costs cannot be precisely quantified. Therefore, it was reasonable for Xcel to assign accumulated depreciation on a prorated basis to the return-earning and no-return portions of the LCM/EPU rate base.

² *In the Matter of a Commission Investigation into Xcel Energy's Monticello Life-Cycle Management/ Extended Power Uprate Project and Request for Recovery of Cost Overruns*, Docket No. E-002/CI-13-754, Order Finding Imprudence, Denying Return on Cost Overruns, and Establishing LCM/EPU Allocation for Ratemaking Purposes (May 8, 2015).

³ See Compliance Filing – Preliminary Schedules at Schedule A8 (April 24, 2015), this docket.

The Department argued that the no-return portion of the LCM/EPU should begin depreciating in 2015, when the EPU is expected to go into service. However, the Commission's finding of imprudence applied to the project as a whole, not to the EPU alone. To assume that all project components deployed before 2015 were the result of prudent expenditures risks overstating the effect of the Commission's ordered disallowance.

III. Monticello EPU In-Service Date

A. Introduction

The Monticello LCM/EPU project had two distinct goals. The Life-Cycle Management (LCM) portion of the project was designed to increase the plant's life by 20 years; the Extended Power Uprate (EPU) was designed to increase the plant's capacity from 600 to 671 megawatts (MW).

In early 2014, Xcel obtained a license amendment from the federal Nuclear Regulatory Commission (NRC) authorizing it to operate Monticello at the new power level. However, as a condition of its license, Xcel is required to complete a "power ascension process" under the NRC's supervision. Under the power-ascension process, a plant's capacity is increased by predefined increments, and data is sent to the NRC for review at each power level. The plant cannot ascend to the next power level without NRC approval.

As of the end of 2014, Xcel did not yet have the NRC's permission to operate Monticello at the full 671 MW uprate level; the plant had only ascended to 656 MW. The Commission therefore required Xcel to remove EPU costs from its 2014 rate base, finding that the EPU was not used and useful in 2014. The Commission allowed Xcel to include the EPU in 2015 rate base but ordered the Company, if the EPU was not in service by January 1, 2015, to refund any excess amounts collected in rates through the multiyear-rate-plan refund mechanism.

At the Commission's July 9, 2015 meeting, Xcel stated that Monticello had recently ascended to 671 MW for the first time. The plant remained at that level for a few hours and was then taken back down to 656 MW while the NRC completed its review of data collected during the full ascension. Xcel stated that it expected to have the NRC's approval to operate Monticello at 671 MW permanently within a few days.

B. Positions of the Parties

Xcel argued that the Monticello EPU was in service as of January 1, 2015, because the plant had been operating at uprate levels—between 640 MW and 656 MW—since December 2014. Xcel acknowledged that Monticello was not yet operating at 671 MW. However, the Company argued that the plant does not need to operate at the full 671 MW for the EPU to be considered used and useful.

The Department argued that the Commission's May 8 order stands for the proposition that the EPU is not used and useful until Xcel both receives approval to operate the plant at 671 MW and reaches that level in practice. It argued that the EPU is still not used and useful, since Xcel has acknowledged that it does not yet have NRC permission to operate Monticello at its full capacity.

C. Commission Action

The Commission agrees with the Department that the Monticello EPU will not be used and useful until Xcel has NRC permission to operate the plant at 671 MW, and clarifies that the EPU was not used and useful as of January 1, 2015. Thus, under the May 8 order, Xcel will be required to refund any excess amounts collected in rates through the refund mechanism for the multiyear rate plan. To facilitate that process, the Commission will direct Xcel to make a compliance filing once Monticello completes its ascension to 671 MW.

IV. Multi-Year Rate Plan – Application of Step-Year Cost of Capital

In the May 8 Order, the Commission approved capital structures and costs of capital for the Company's 2014 test year and for its 2015 step.⁴ The Commission clarifies that the 2015 Step-Year cost of capital applies only to the 2015 Step capital projects. Because the Commission's review of step year revenue requirements is limited to changes in capital-related investments, it is appropriate that the approved step-year cost of capital be applied only to projects contributing to the changes. This results in retail-related revenues of \$2,977,043,000 for the 2015 Step.

V. Revenue Decoupling Mechanism: Effective Date

A. Introduction

In its rate case application, Xcel asked the Commission to authorize a three-year pilot program implementing a new rate design involving a revenue decoupling mechanism (RDM) for certain customer classes.

In the May 8 Order, the Commission approved a revenue decoupling mechanism designed to operate generally as follows: For each customer class subject to the decoupling mechanism, Xcel would calculate (1) the monthly baseline fixed revenues it should expect per customer and (2) its charge per kilowatt-hour (kWh) sold to customers in that class, excluding fuel-related charges (which are recovered via a different mechanism).

Then each month Xcel would multiply the baseline expected revenues by the number of customers in the class, and compare this to the amount of energy consumed by the customer class multiplied by the baseline fixed energy charges for that month. After collecting 12 months of data, Xcel would determine how much it has over- or under-recovered its costs for that customer class, and would adjust future rates for that class to compensate.

The Commission directed Xcel to start implementing revenue decoupling by collecting data on sales that occur after the Commission issued its final compliance order in this docket and the new rates take effect, but in no event sooner than January 1, 2016.⁵ The Commission made this decision based on the premise that this would provide a period of relatively stable rates.

However, the Commission's order did not address the contingency that Xcel would file another rate case before the end of the year.

⁴ May 8 Order at 61 – 62.

⁵ May 8, 2015 Order at 75.

B. Commission Action

The Commission will not alter the implementation dates it set in its May 8, 2015 order. But given Xcel's proposal to file a rate case by the end of the year, the Commission will incorporate this contingency into its decoupling instructions. On this basis, the Commission will direct Xcel to implement revenue decoupling as follows:

- Xcel should set the *baseline fixed revenue per customer* and the *baseline fixed energy charges* on the basis of the authorized revenues from whatever rates are in effect. In the absence of a new rate case, Xcel would calculate these revenues and charges based on the final rates from the current rate case. But if Xcel files a new rate case for 2016, Xcel would calculate these revenues and charges based on final rates from that new case.
- Xcel must measure decoupling deferrals from January through December, 2016, once new rates take effect in 2017. While this date is indefinite, coordinating implementation of the decoupling mechanism with the new rates from the rate case will reduce the customer confusion that would be triggered by having two rate changes implemented in rapid succession.
- Xcel must calculate decoupling deferrals from January through December, 2017, for implementation as an adjustment to rates on April 1, 2018.
- Xcel must calculate decoupling deferrals from January through December, 2018, for implementation as an adjustment to rates on April 1, 2019.
- Finally, in 2020 Xcel must make its final adjustment to rates to offset any remaining over- or under-recovery of funds via the revenue decoupling mechanism and, absent any new Commission authorization, conclude this pilot program.

These instructions should enable Xcel to implement the revenue decoupling mechanism in the manner consistent with the Commission's intentions.

VI. Class Cost of Service Studies

In the May 8 Order, the Commission required Xcel to re-run its Class Cost of Service Studies (CCOSS) to incorporate CCOSS-related Commission decisions.⁶ The Commission directed the Company to modify its 2014 and 2015 CCOSS to classify the costs of two wind farms using the plant-stratification method, and to use the location method to allocate Other Operations and Maintenance (O&M) Costs.⁷

In a May 1, 2015 filing, Xcel provided preliminary CCOSS schedules, including revised weather-normalized sales, customer count, and revenue data. On June 8, 2015, Xcel filed revised 2014 and 2015 Class Cost of Service Studies, correcting an error in its May 1 filing. The Commission has reviewed the filings, will accept them as discussed below, and will set forth additional requirements for future rate cases.

⁶ May 8 Order at 104.

⁷ May 8 Order at 101, ¶¶35 and 36.

A. May 1 Preliminary Compliance Filing

The Commission will accept the energy sales data revisions, the customer count data revisions, and the revenue data revisions in Xcel's May 1, 2015, compliance filing. The revised data generally reflect actual figures rather than estimates and therefore serve as a more accurate basis for the CCOSS.

The Department concluded that the May 1 filing did not properly address the two modifications required by the Commission in the May 8 Order, so the Commission will accept the filing only for the limited purpose stated above.

B. June 8 Revisions

In the June 8 filing, the Company discussed concerns the Department raised about the May 1 filing, and made changes to its CCOSS calculations. The record contains no Department analysis of the June 8 filing or indication that it fully addressed the Department's concerns about the May 1 filing.

The Commission will accept Xcel's June 8, 2015, filing as it pertains to the classification of the Grand Meadow and Nobles Wind Farms and the allocation of Other O&M Costs. The Commission has reviewed the filing and although it has not been shown that the filing complies with the Commission's May 8, 2015, Order, the Commission concludes that any differences are not likely to materially affect the revenue apportionment.

C. Overall Compliance

The Commission will also therefore accept the class cost of service results for test year 2014 and step year 2015 contained in Xcel's June 8, 2015 filing for use in the class revenue apportionment.⁸ The results constitute a reasonable initial basis for revenue apportionment, subject to the additional considerations the Commission must also weigh when establishing just and reasonable rates.

The ability of stakeholders and the Commission to evaluate the Company's CCOSS methodology and results depends on clear and thorough documentation of the methods and inputs the Company has relied upon. To facilitate future CCOSS review, the Commission will require the company to supply additional CCOSS-related detail in future rate cases, as set forth in the ordering paragraphs.

VII. Class Revenue Apportionment

A. Introduction

In the May 8 Order, the Commission directed the Company to:

set the class revenue apportionment by applying the following methodology to the revised CCOSS:

- a. Maintain the current level of Lighting class revenues;

⁸ The filed schedules were based on the revenue requirement in the May 8 Order and must be adjusted to reflect the revenue requirement authorized in this order.

- b. Set the C&I Non-Demand class apportionment at the cost-based level;
- c. If the revised CCOSS shows that the Residential class is currently contributing more than its share of cost, set the Residential class apportionment at the cost-based level;
- d. If the revised CCOSS shows the Residential class is currently contributing less than its share of cost, move the Residential class 75% closer to cost; and
- e. Recover the remaining revenue requirement from the C&I Demand class.

Xcel's June 8 filing contained the Company's proposed class revenue apportionment. The Company asserted that its interpretation of the May 8 Order supported its proposed apportionment, but acknowledged that the Department had identified a possible alternative interpretation.

The Department contended that Xcel's apportionment did not comply with the Commission's direction, and stated that Xcel's apportionment imposed a larger increase on the residential class than the Commission intended. It construed the Commission's instruction to move the Residential class "75% closer to cost" differently and calculated an allocation with a smaller increase for the Residential class. The OAG agreed with the Department's apportionment method.

B. Commission Action

The Commission concludes that the proposed class revenue apportionment detailed in Xcel's June 8 filing is consistent with the Commission's intent, and will therefore accept it. The Commission acknowledges that the Department and OAG's alternative interpretation is not unreasonable, but it does not coincide with the Commission's intent, which was to move the residential class closer to CCOSS-reflected cost. The Company's proposal appropriately moves the residential class 75% closer to the class's cost reflected in the CCOSS.

Because resolution of the class revenue apportionment in this case has been complex and late to develop, the Commission will also require Xcel to provide estimated rate and bill impacts for customer classes in its thirty-day compliance filing.

VIII. Interim Rate Refund Plan

A. Introduction

At the outset of this case, and consistent with Minn. Stat. § 216B.16, subd. 3, the Commission authorized the Company to collect interim rates for service rendered on or after January 3, 2014.⁹ Minn. Stat. § 216B.16, subd. 3(c) requires the Commission to address over- or under-collection arising when there is a difference between interim rates and final rates.

⁹ Order Setting Interim Rates (January 2, 2014).

Commonly, interim-rate refund proposals made by utilities at the conclusion of a rate case are uncomplicated and not subject to dispute. The circumstances of this case make calculating the difference between interim rates and final rates an unusual challenge. The proceeding took longer than a typical proceeding because (1) this is the first multi-year rate plan considered by the Commission; (2) several rate case issues were unusually complex and interrelated; and (3) both the ALJ and the Commission extended timelines to accommodate resource constraints.

Consequently, the interim rate period spanned 2014 and much of 2015—years with different approved revenue requirements under the multi-year rate plan. The interim rate was higher than approved rates in the test year but lower than approved rates in the step year, creating a question of how to calculate the amount for refund or recovery required by statute.

There is no dispute that, relative to rates approved in the May 8 Order, interim rates resulted in over-collection in 2014, and an under-collection in 2015. At issue is the method of calculating and accounting for the difference in this case, where 2015 rates were not approved by the statutory deadline for the reasons stated above. Absent the Company's limited waiver, the Commission's decision in this case would have been due on or before March 3, 2015.

The Commission required the Company to file a proposal to make refunds of interim rates consistent with Commission decisions in this case.¹⁰ The May 8 Order contemplated receiving comments from interested parties in response to the Company's proposal, and that the Commission would decide the interim rate refund issue at a future date. The Commission received comments from the Department, the OAG, and AARP.

B. Positions of the Parties

On April 30, 2015, Xcel filed a preliminary interim rate refund proposal. The Company proposed comparing the interim rate revenues collected from January 3, 2014, through May 8, 2015, to the final authorized rates for the same period, and refunding any surplus. Xcel asserted that this method would be the most straightforward and consistent with prior practice and the intent of the interim rate refund statute.

The OAG argued that Xcel's proposal should not be approved without modifications. It asserted that any refund plan should account for the two distinct test years at issue in the proceeding. The OAG also stated that Xcel's proposal would result in recovery of a longer period of under-collection than the Company would be entitled to under Minn. Stat. § 216B.16, subd. 3(c), effectively putting the 2015 step-year rates into effect in January.

The OAG proposed instead to calculate the interim rate over- or under-collection in three separate time periods. The OAG argued that its proposal appropriately accounts for the two distinct test years and excludes under-collections that the OAG contends Xcel should not recover.

AARP also opposed the Company's proposal to net 2014 – 2015 over- and under-collection on the grounds that it would allow Xcel to recover more than it is entitled to under the interim rate statute. Both the OAG and AARP argued that the interim rate refund should be made with interest at the Company's approved rate of return rather than the prime rate.

¹⁰ May 8 Order at 105.

The Department asserted that Minnesota statutes do not provide explicit direction on how to calculate interim rate refunds in a multi-year rate proceeding. It argued that the Company's proposal would result in recovery greater than that ordinarily allowed under Minn. Stat. § 216B.16, subd 3(c). The Department proposed an alternative calculation method that would permit the Company to recover 2015 under-collection starting with the date of the May 8 Order. It further stated that permitting the Company to recover under-collections arising before May 8 could be accomplished if the Commission found that exigent circumstances would support the decision.

C. Commission Action

The Commission believes that the Department's refund proposal, as modified below, reasonably balances the interests of ratepayers and the Company consistent with the purposes of Minn. Stat. § 216B.16 and the Commission's overall obligation to establish just and reasonable rates. The Commission agrees with the Department that the relevant statutes do not explicitly address their application to the facts of this multi-year rate plan proceeding. Exigent circumstances warrant an interim rate over- and under-collection calculation that reflects the unique circumstances of this case.

The Commission agrees with the parties asserting that the interim rate calculations should recognize two distinct test years with distinct amounts recovered relative to approved rates. Netting the two years together as the Company proposes would permit it to recover more under-collected revenue in 2015 than Minn. Stat. § 216B.16, subd 3(c) appears to contemplate. Instead, the over- or under- recovery calculation must be performed separately for 2014 and 2015.

The Commission finds that the interim rates were in excess of approved 2014 rates and less than the rates approved for 2015. The Commission will require Xcel to refund the excess amount collected in 2014, and will permit Xcel to recover the 2015 deficiency, but only as it accrued beginning on March 3, 2015 and through the date the new rate schedules are put into effect. This will permit Xcel to recover the difference in 2015 revenues beginning on the date the final determination in this case was statutorily due, but for accommodations made by the Company.

As described above, several factors contributed to prolong this proceeding, including ALJ- and Commission-initiated requests to extend deadlines, which could not have occurred without Xcel's agreement. This first-of-its-kind multi-year rate plan involved novel and complex disputed issues—including this dispute over the appropriate interim rate refund, an issue not usually complicated nor subject to dispute. The Company agreed to deadline extensions that prolonged the proceeding by over two months. Xcel also refrained from seeking increased interim rates as the case proceeded to avoid introducing another disputed issue.

Accordingly, the Commission will authorize Xcel, in its thirty-day compliance filing, to net its test year interim rate revenue refund obligation against step-year interim rate revenue under-collections for the period from March 3 through the date final rates take effect. The effect of this decision will be to make final rates effective as of March 3, 2015—the statutory deadline for a final determination in this proceeding that the company waived. This calculation method will avoid penalizing the company for agreeing to a delayed final determination to accommodate stakeholders and decision-makers.

The OAG argued that the Commission lacks authority to “change the date that surcharges may begin” under Minn. Stat. 216B.16, subd. 3(c). However, nothing in subdivision 3 prohibits the Commission from authorizing recovery for under-collection between March 3 and May 8 where doing so is just and reasonable under the circumstances.

There is also no explicit direction in statute on how to calculate over- or under-recovery in multi-year rate proceedings. Apart from the Commission’s authority under subdivision 3(b) to determine how to calculate interim rates when it finds exigent circumstances, as it does here, the Commission also has authority under Minn. Stat. 216B.16, subd. 19(c) to “ensure that rates remain just and reasonable” during a multi-year rate plan. The Commission uses the March 3 date as a marker for calculating just and reasonable rates in the unique circumstances of this case.

The Commission will not authorize Xcel to: (a) net its test-year interim rate revenue refund obligation against its 2015 interim rate revenue under-collections through March 3, 2015, nor (b) reduce the amount of interest paid on excess interim rates collected in 2014 by offsetting the average balance of excess interim rates collected using under-collections in 2015. These proposals would permit the Company to recover more than it could have even if the rate case were decided by the statutory deadline and do not appropriately distinguish the 2014 over-collection and the 2015 under-collection. The Commission believes that the March 3 date best balances the interests of ratepayers and the Company in a fashion consistent with the Commission’s obligation to set just and reasonable rates, and consistent with the object of the interim rate statute.

The Commission will require the Company to issue any interim rate refund with interest calculated at the prime interest rate, or 3.25%. Under Minnesota Rule 7825.3300, the prime interest rate is ordinarily applied to refunds of interim rates, and the Commission does not find sufficient reason to require a different interest rate in this case.

IX. Passage-of-Time in Future Multi-Year Rate Cases

In the May 8 Order, the Commission agreed with and adopted the ALJ’s findings and conclusions concerning the Department’s proposal to reduce the Company’s proposed depreciation expense and accumulated depreciation due to the passage of time. The Department requested that the Commission reconsider its decision, a request the Commission denied in its July 13 Order Denying Petitions for Reconsideration. However, in the May 8 Order the Commission left open the possibility of evaluating the issue again in a future multi-year rate case proceeding.¹¹ The Department’s petition for reconsideration included recommendations to improve record development on the issue in future rate cases.

The Commission acknowledges the Department’s concerns about the adequacy of record development on this issue, and believes more detail would benefit Commission and stakeholder analysis in the future. To promote a clear record allowing full consideration of the issue, the Commission will require in future multiyear rate cases that:

- the Company explain in Direct Testimony how the Company adjusts rates in years following the first year for the passage of time (all increased and decreased adjustments shown clearly); and

¹¹ May 8 Order at 25.

- filings contain clear calculations, including narrative, detailed calculations, well-labeled information, and support for how calculations tie out to the rate case revenue requirement requested by the Company.

These requirements will ensure a fully developed record on accounting for the passage of time in a multi-year rate plan proposal, which will facilitate a more detailed Commission review of the issue and any disagreements that might arise.

X. Sherco 3 Insurance

A. Introduction

In November 2011, an accident forced the shutdown of one of three units at the Sherburne County Generating Station (Sherco). On March 31, 2015, Xcel filed an insurance recovery update on the Sherco 3 generating unit. The filing detailed what the Company described as the final Sherco restoration project costs and insurance cost recovery information.

On May 7, 2015, the OAG filed a letter questioning whether the Company's proposal for handling insurance proceeds conformed to the Company's commitment to ensure that no repair costs reimbursed by insurance were also recovered from ratepayers. At issue is whether the Sherco 3 insurance proceeds should be returned to ratepayers as part of the 2014 Capital True-Up process,¹² or whether the Company's rate base should be reduced.

B. Positions of the Parties

The OAG argued that including the insurance surplus in the Capital True-Up would permit "significant double-recovery" from ratepayers. According to the OAG, accounting for the insurance proceeds as part of a true-up calculation intended for another purpose would not be consistent with the Company's commitment and the Commission's order in the Company's last rate case. The OAG recommended that the proceeds be returned to ratepayers either by reducing the Company's rate base or through a direct refund.

In a May 27 letter, the Department agreed with the OAG's analysis and recommended that the Company's rate base be reduced.

Xcel argued that including the insurance reimbursement in the Capital True-Up is appropriate. The Company stated that accounting for the reimbursement together with its higher-than-forecast 2014 Sherco 3 revenue requirement results from the application of standard ratemaking principles and is consistent with their commitment.

C. Commission Action

The Commission agrees with the OAG and the Department, and will require Xcel to include Sherco 3 insurance proceeds as an offset to its rate base in this proceeding. If the amount of the insurance reimbursement were kept in the rate base and accounted for in the Capital True-Up as the Company proposed, ratepayers would pay for the capital costs of the Sherco 3 repair without

¹² The Capital True-Up Process is a refund mechanism agreed to by the Company as part of its proposal for a multi-year rate plan. *See* the May 8 Order at 7.

receiving the benefit of the insurance proceeds. Reducing the company's rate base will prevent the company from recovering from ratepayers without a corresponding ratepayer benefit.

XI. Babcock & Wilcox Settlement

In the May 8 Order, the Commission addressed a pending lawsuit brought against the Company by Babcock & Wilcox Nuclear Energy, Inc., a subcontractor for a project at the Prairie Island generating plant.¹³ The Commission determined that the Company would be required to refund disputed costs included in rate base but not used to pay for the project. But the Commission allowed the litigation to run its course before requiring any true-up, and required that the Company make a compliance filing upon resolution of the suit.

On June 3, 2015, the Company filed an update on the litigation, stating that it had been settled for approximately \$36 million, or approximately \$10 million less than Babcock & Wilcox's initial claim.

In a June 11 filing, Xcel provided more details on the litigation, and proposed how to account for the settlement. The Company indicated that it had accrued \$40 million in costs for Babcock & Wilcox invoiced work, leaving a \$4 million difference between the settlement amount and the amount Xcel had accrued on its books. It proposed to reduce the 2014 plant-in-service balance by \$2.8 million, and the accumulated depreciation beginning balance by \$1.2 million. These adjustments would result in a \$367,000 reduction in 2014 revenue requirements, which Xcel proposed to refund.

In reply comments, the OAG recommended that the Commission adopt the Company's proposal and approve the refund as part of the interim rate refund.

Finding the Company's proposed accounting and calculations reasonable, the Commission will accept Xcel's proposed refund. The Company will be required to incorporate its proposed adjustment into the interim rate refund and the calculation of final rates. By including the refund in the interim rate refund calculation, ratepayers will receive an appropriate interest rate on the funds held by Xcel until the matter was resolved.

XII. 2014 Property Tax

In the May 8 Order, the Commission adopted an ALJ-recommended agreement between the Company and the Department about how to handle 2014 property taxes. The Company agreed to make a compliance filing on June 30, 2015, detailing its actual property tax expense, and agreed that if the actual expense were lower than the test-year expense amount it would annually refund the difference.

In its June 30 filing, the Company detailed its actual 2014 property tax expense. According to the Company, actual 2014 property taxes were \$3.1 million less than its year-end estimate (on a Minnesota jurisdictional basis). The Company proposed to recalculate its 2014 and 2015 revenue requirements to reflect the lower expense.

¹³ May 8 Order at 48 – 50.

The Commission will accept Xcel’s proposal to incorporate its final 2014 Minnesota electric jurisdictional property tax expense into 2014 and 2015 revenue requirement calculations. This will ensure ratepayers will receive the full benefit of the lower tax expense.

XIII. Revised Overall Financial Schedules

A. Gross Revenue Deficiency

The above Commission findings and conclusions result in a total gross revenue deficiency of \$55,511,000 for the 2014 test year and \$93,908,000 for the 2015 Step as shown below:

**Revenue Deficiency - Minnesota Jurisdiction
Test Year Ending December 31, 2014 & 2015 Step
(\$000’s)**

Line No.		2014 Test Year	2015 Step
1	Average Rate Base	\$ 6,493,225	\$ 495,064
2	Rate of Return	<u>7.34%</u>	<u>7.37%</u>
3	Required Operating Income	<u>\$ 476,603</u>	<u>\$ 36,486</u>
4	Operating Income before AFUDC	\$ 409,192	\$ (13,063)
5	AFUDC	<u>\$ 34,864</u>	<u>\$ (5,509)</u>
6	Total Operating Income	\$ 444,056	\$ (18,572)
5	Income Deficiency	\$ 32,546	\$ 55,058
6	Gross Revenue Conversion Factor	<u>1.705611</u>	<u>1.705611</u>
7	Gross Revenue Deficiency	<u>\$ 55,511</u>	<u>\$ 93,908</u>

B. Rate Base Summary

Based on the above findings, the Commission concludes that the appropriate rate base for the 2014 test year is \$6,493,225,000 and \$495,064,000 for the 2015-Step additions as shown below:

Rate Base Summary - Minnesota Jurisdiction
Test Year Ending December 31, 2014 & 2015 Step
(\$000's)

Line No.		2014 Test Year	2015 Step
	ELECTRIC PLANT IN SERVICE		
1	Production	\$ 7,949,364	\$ 514,470
2	Transmission	1,999,645	81,334
3	Distribution	3,019,969	9,296
4	General	499,761	3,465
5	Common	454,709	12,133
6	Total Utility Plant In Service	<u>\$ 13,923,449</u>	<u>\$ 620,698</u>
	RESERVE FOR DEPRECIATION		
7	Production	\$ 4,453,024	\$ 39,872
8	Transmission	566,980	(50,622)
9	Distribution	1,184,480	(78,927)
10	General	179,709	(1,408)
11	Common	243,128	2,100
12	Total Reserve For Depreciation	<u>\$ 6,627,322</u>	<u>\$ (88,986)</u>
	NET PLANT IN SERVICE		
13	Production	\$ 3,496,339	\$ 474,598
14	Transmission	1,432,666	131,956
15	Distribution	1,835,489	88,224
16	General	320,052	4,873
17	Common	211,581	10,033
18	Net Utility Plant In Service	<u>\$ 7,296,127</u>	<u>\$ 709,684</u>
19	Construction Work in Progress	\$ 530,071	\$ (111,525)
20	Accumulated Deferred Income Taxes	\$ (1,603,976)	\$ (98,978)
21	Cash Working Capital	\$ (71,639)	\$ (4,118)
	OTHER RATE BASE		
22	Materials & Supplies	\$ 116,514	\$ 0
23	Fuel Inventory	74,663	0
24	Non-Plant Assets & Liabilities	(13,137)	0
25	Prepayments	14,103	0
26	Nuclear Outage Amortization	82,801	0
27	Customer Advances	(3,301)	0
28	Customer Deposits	(2,763)	0
29	Sherco 3 Deferral	10,250	0
30	Black Dog Reg Asset Amortization	2,962	0
31	PI EPU Amortization	55,349	0
32	Other Working Capital	5,202	0
33	Total Other Rate Base	<u>\$ 342,642</u>	<u>\$ 0</u>
34	TOTAL AVERAGE RATE BASE	<u>\$ 6,493,225</u>	<u>\$ 495,064</u>

C. Operating Income Summary

Based on the above findings, the Commission concludes that the appropriate operating income for the 2014 test year under present rates is \$444,056,000 and for the 2015-Step additions is \$(18,572,000) as shown below:

Operating Income Summary - Minnesota Jurisdiction Test Year Ending December 31, 2014 & 2015 Step (\$000's)

Line No.		2014 Test Year	2015 Step
	UTILITY OPERATING REVENUES		
1	Retail Revenue	\$ 2,826,039	\$ 622
2	Interdepartmental	962	0
3	Other Operating Revenue	621,402	41,248
4	Total Operating Revenue	<u>\$ 3,448,403</u>	<u>\$ 41,870</u>
	EXPENSES		
	Operating Expenses		
5	Fuel & Purchased Energy	\$ 1,086,327	\$ 0
6	Power Production	697,188	4,379
7	Transmission	191,916	0
8	Distribution	103,490	(173)
9	Customer Accounting	48,552	0
10	Customer Service & Information	92,987	0
11	Sales, Econ Dvlp & Other	101	0
12	Administrative and General	190,225	0
13	Total Operating Expenses	<u>\$ 2,410,786</u>	<u>\$ 4,206</u>
14	Depreciation Expense	\$ 273,046	\$ 74,298
15	Amortization	\$ 31,300	\$ 0
	Taxes:		
16	Property	\$ 151,266	\$ 4,016
17	Deferred Income Tax & ITC	161,953	11,263
18	Federal & State Income Tax	(18,550)	(38,851)
19	Payroll & Other	29,409	0
20	Total Taxes	<u>\$ 324,079</u>	<u>\$ (23,571)</u>
21	TOTAL EXPENSES	<u>\$ 3,039,210</u>	<u>\$ 54,933</u>
22	AFUDC	\$ 34,864	\$ (5,509)
23	TOTAL OPERATING INCOME	<u>\$ 444,056</u>	<u>\$ (18,572)</u>

ORDER

1. The Commission re-opens its May 8 Order in this docket for clarification and to address issues left open.
2. All (past, present, and future) depreciation expense recorded in accumulated depreciation/depreciation reserve shall be allocated on a pro-rated basis between the \$415 million on which Xcel is allowed to earn a return and the \$333 million that it is not.
3. The Commission finds that the Monticello EPU was not used and useful as of January 1, 2015.
4. Xcel shall make a compliance filing with the date Monticello completed its full ascension to 671 MW.
5. The 2015 Step-Year cost of capital shall only apply to the 2015 Step capital projects, resulting in retail-related revenues of \$2,977,043,000 for the 2015 Step.
6. The Commission affirms the decisions of its May 8, 2015, order regarding the revenue decoupling mechanism's implementation.
7. Xcel shall set the baseline fixed revenue per customer and baseline fixed energy charges using the authorized revenues from whatever rates are in place, be that final rates from this rate case (if Xcel decides not to file another rate case) or final rates from a future rate case (if Xcel files a rate case for 2016).
8. Xcel shall implement revenue decoupling according to the following schedule:
 - 2016, January – December: Measure 2016 decoupling deferrals
 - 2017, January – December: Measure 2017 decoupling deferrals
 - 2017, after new rates approved: Implement 2016 decoupling adjustments
 - 2018, January – December: Measure 2018 decoupling deferrals
 - 2018, April 1: Implement 2017 decoupling adjustments
 - 2019, April 1: Implement 2018 decoupling adjustments
 - 2020: True-up balance
9. The Commission accepts Xcel's June 8, 2015, filing, and finds that although it has not been shown that the filing complies with the Commission's May 8, 2015, Order, the differences are not likely to materially affect the revenue apportionment.
10. The Commission accepts the energy sales data revisions, customer count data revisions, and revenue data revisions in Xcel's May 1, 2015, compliance filing.

11. The Commission accepts the following class cost of service results for test year 2014 and step year 2015 for use in the class revenue apportionment:¹⁴

Summary of 2014 Compliance Class Cost of Service Study Results (\$000)

ADJUSTED COST RESPONSIBILITIES						
		Total	Residential	Non-Demand	Demand	Street Ltg
[11]	Adjusted Rate Revenue Reqt (line 1 + line 10)	2,884,839	1,047,820	109,712	1,702,974	24,332
[12]	Incr Misc Chrgs & Late Pay (CCOSS page 7, line 21 to line 23)	<u>107</u>	<u>78</u>	<u>5</u>	<u>24</u>	<u>0</u>
[13]	Adjusted Operating Revenues (line 11 + line 12)	2,884,946	1,047,899	109,717	1,702,998	24,333
[14]	Present Rates (line 4)	<u>2,826,039</u>	<u>1,023,255</u>	<u>108,102</u>	<u>1,668,360</u>	<u>26,321</u>
[15]	Adjusted Deficiency (line 13 - line 14)	58,908	24,643	1,615	34,638	(1,989)
[16]	Defic / Pres Rates (line 15 / line 14)	2.1%	2.4%	1.5%	2.1%	-7.6%
[17]	Ratio: Class % / Total %	1.00	1.16	0.72	1.00	-3.62

Summary of 2015 Compliance Class Cost of Service Study Results (\$000)

ADJUSTED COST RESPONSIBILITIES						
		Total	Residential	Non-Demand	Demand	Street Ltg
[11]	Adjusted Rate Revenue Reqt (line 1 + line 10)	2,994,440	1,087,141	113,603	1,767,855	25,841
[12]	Incr Misc Chrgs & Late Pay (CCOSS page 7, line 21 to line 23)	<u>306</u>	<u>224</u>	<u>14</u>	<u>67</u>	<u>1</u>
[13]	Adjusted Operating Revenues (line 11 + line 12)	2,994,746	1,087,364	113,617	1,767,923	25,842
[14]	Present Rates (line 4)	<u>2,826,661</u>	<u>1,023,121</u>	<u>108,086</u>	<u>1,669,134</u>	<u>26,319</u>
[15]	Adjusted Deficiency (line 13 - line 14)	168,085	64,243	5,530	98,789	(477)
[16]	Defic / Pres Rates (line 15 / line 14)	5.9%	6.3%	5.1%	5.9%	-1.8%
[17]	Ratio: Class % / Total %	1.00	1.06	0.86	1.00	-0.30

12. In future rate cases, the Company shall:
- a. ensure internal consistency within its CCOSS and provide direct links to all inputs used in its model;
 - b. include specific tabs within its CCOSS model that clearly identify all inputs (non-financial and financial) as well as all relationships between variables used in the cost model;
 - c. link input sources to the financial data and non-financial data filed in the record so that any changes made in compliance are clearly and promptly reflected in the relevant compliance cost study; and

¹⁴ These CCOSS results were based on the revenue requirement in the May 8 Order and must be adjusted to reflect the revenue requirement authorized in this order.

- d. provide estimated rate and bill impacts for customer classes to affirm the methodology of apportioning revenue responsibility.
13. The Commission accepts Xcel's proposed class revenue apportionment.
14. Xcel shall provide estimated rate and bill impacts for customer classes in its thirty-day compliance filing.
15. In future multiyear rate cases, regarding the issue of the passage of time:
 - a. the Company must explicitly explain in Direct Testimony how the Company adjusts rates in years following the first year for the passage of time (all increased and decreased adjustments shown clearly); and
 - b. filings must contain clear calculations, including narrative, detailed calculations, well-labeled information, and support for how calculations tie out to the rate case revenue requirement requested by the Company.
16. Xcel, in its thirty-day compliance filing, shall net its test year interim rate revenue refund obligation against step-year interim rate revenue under-collections for the period from March 3 through the date final rates take effect.
17. Xcel, in its thirty-day compliance filing, shall not (a) net its test-year interim rate revenue refund obligation against its step-year interim rate revenue under-collections through March 3, 2015, nor (b) reduce the amount of interest paid on excess interim rates collected in 2014 by offsetting the average balance of excess interim rates collected using under-collections in 2015.
18. The interest rate to be paid on a possible interim rate refund shall be the prime interest rate, or 3.25%.
19. Xcel shall include Sherco 3 insurance proceeds as an offset to its rate base in this proceeding.
20. The Commission accepts Xcel's proposed Babcock & Wilcox settlement refund. The Company shall incorporate its proposed adjustment into the interim rate refund and the calculation of final rates.

21. Xcel shall incorporate its final 2014 Minnesota electric jurisdictional property tax expense into 2014 and 2015 revenue requirement calculations.
22. This order shall become effective immediately.

BY ORDER OF THE COMMISSION

Daniel P. Wolf
Executive Secretary



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