

Staff Briefing Papers

Meeting Date October 21, 2021 Agenda Item 5**

Company Northern States Power Company, d/b/a Xcel Energy

Docket No. **E-002/M-19-721**

**In the Matter of Northern States Power Company d/b/a Xcel Energy’s Petition
for Approval of the Transmission Cost Recovery Rider Revenue Requirements for
2019 and 2020 and Revised Adjustment Factors**

- Issues
1. Should the Commission approve or modify Xcel Energy’s 2019 and 2020 revenue requirements and other ancillary matters for the projects eligible for cost recovery through the Transmission Cost Recovery Rider?
 2. Should the Commission approve or modify Xcel Energy’s request to modify its Transmission Cost Recovery Tariff, True-Up and Tracker Balance Reports, Adjustment Factors, and Customer Notice?

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

 **Relevant Documents**

	Date
Xcel Energy- Petition	November 15, 2019
Minnesota Department of Commerce, Division of Energy Resources- Letter	December 9, 2019
Commission- Order	February 21, 2020
Minnesota Department of Commerce, Division of Energy Resources- Comments	October 16, 2020
Xcel Energy- Reply Comments	October 30, 2020
Commission- Information Request	January 6, 2021
Xcel Energy- Information Request Response	January 25, 2021
Minnesota Department of Commerce, Division of Energy Resources- Reply Comments	August 11, 2021
Minnesota Department of Commerce, Division of Energy Resources- Letter	September 13, 2021

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I. Statement of the Issues

1. Should the Commission approve or modify Xcel Energy's 2019 and 2020 revenue requirements and other ancillary matters for the projects eligible for cost recovery through the Transmission Cost Recovery Rider?
2. Should the Commission approve or modify Xcel Energy's request to modify its Transmission Cost Recovery Tariff, True-Up and Tracker Balance Reports, Adjustment Factors, and Customer Notice?

II. Introduction

On November 15, 2019, Northern States Power Company d/b/a Xcel Energy (Xcel Energy, Xcel, or the Company) filed its Petition for Transmission Cost Recovery (TCR) rider cost recovery for three broad categories of projects (1) costs related to a new transmission project, Huntley-Wilmarth 345 kV Transmission line; (2) costs related to a certified distribution grid modernization project, Advanced Distribution Management System (ADMS); and (3) costs for transmission projects currently in the TCR Rider but only until final rates are implemented at the conclusion of Xcel's November 1, 2019 rate case. Xcel proposes approval of approximately \$81.9 million in TCR Rider revenue requirements (a decrease of approximately \$8 million or ~9% as compared to the previous TCR approved revenue requirements) for 2020.

By Letter dated December 9, 2019, the Minnesota Department of Commerce, Division of Energy Resources (Department) requested the Commission provisionally grant Xcel's Petition noting the TCR Revenue Requirement results in a decrease as compared to the previously approved TCR Revenue Requirement. In its February 21, 2020 Order, the Commission provisionally approved Xcel's TCR Rider Revenue Requirements and adjustment factors and extended the initial comment deadline. Xcel filed its Revised Tariff sheets and set the TCR Rider adjustment factors effective for electric customers bills starting March 1, 2020

Between October 16, 2020 and September 13, 2021, Xcel and the Department exchanged comments on various issues. As of September 13, 2021, the main issue remaining in contention between Xcel and the Department is the Department's recommendation for clarification that a soft cap of \$69.1 million per year exists on TCR Rider cost recovery for the ADMS project.

III. Background

A. Xcel's Transmission Cost Recovery Rider

Generally, a public utility may not change its rates without undergoing a rate case in which the Commission comprehensively reviews the utility's costs and revenues. However, the Legislature created exceptions to this general policy, whereby a utility may implement a rider to expedite recovery of certain costs not reflected in the company's current base rates.

Under Minn. Stat § 216B.16, subd. 7b, (the Transmission Statute) the Commission is authorized to approve a “tariff mechanism” that allows a utility to recover, among other costs and through a rider, the Minnesota jurisdictional costs of:

- new transmission facilities that the Commission has approved through a certificate of need or under the state transmission plan; and
- charges incurred by a utility under a federally approved tariff that accrue from other transmission owners’ regionally planned transmission projects that have been determined by the Midcontinent Independent System Operator (MISO) to benefit the utility or the integrated transmission system.

The 2005 Legislature enacted the Transmission Statute, authorizing the Commission to approve, modify or reject a tariff mechanism for an automatic adjustment of charges for costs associated with eligible utility investments in transmission facilities. Since then, the legislature has amended the statute several times.

- The legislature amended the statute in 2008 to allow inclusion of certain regional transmission facilities’ costs, as determined by MISO.
- The legislature again amended the Transmission Statute in 2013 to allow cost recovery for eligible projects located in other states that have been approved by the regulatory commission of the other state in which the new transmission facilities are to be constructed provided MISO has determined the facilities benefit the utility or the integrated transmission system.
- The most recent amendment to the Transmission Statute was in 2015 to allow for cost recovery of facilities and planning investments that support grid modernization efforts. The grid modernization projects must be certified by the Commission under Minn. Stat. § 216B.2425 to be eligible for rider recovery.¹

In 2006, the Commission authorized the Xcel Energy to establish its TCR rider, as Xcel Energy’s mechanism to recover the costs associated with the Transmission Statute.²

In addition to those costs associated with the Transmission Statute discussed above, the Commission’s November 20, 2006 Order approved Xcel’s request to combine cost recovery of eligible projects under the Renewable Statute formerly receiving recovery through the “Renewable Transmission Cost Recovery Rider (RCR)³ with the Transmission statute (TCR).”

Since 2006, the Company’s TCR Rider mechanism has been modified several times to allow recovery of additional costs subsequently authorized by the Minnesota Legislature. The

¹ See [Minn Stat. § 216B.16 subd. 7b.](#)

² See ORDER APPROVING TRANSMISSION COS RECOVERY RIDER, In the Matter of Northern States Power Company d/b/a Xcel Energy’s Petition for Approval of a Transmission Cost Recovery Rider, Docket No. E-002/M-06-1103 (November 20, 2006) for Xcel’s first TCR Rider.

³ See *Id.* Discussing the RCR

Commission's March 20, 2008 Order⁴ approved recovery of greenhouse gas infrastructure costs incurred for the replacement of circuit breakers that contain sulfur hexafluoride (SF6). The Commission's June 25, 2009⁵ Order approved recovery of Regional Expansion Criteria and Benefits (RECB) revenues and costs. Most recently the Commission modified Xcel's TCR Rider in the September 27, 2019 Order⁶ which approved cost recovery for Xcel's certified Advanced Distribution Management System (ADMS) with additional future compliance requirements for the grid modernization project.⁷

Historically, Xcel Energy has categorized calculations associated with project costs and revenue requirements for the TCR Rider into 4 groups; (1) Transmission Statute projects; (2) Distribution-Grid Modernization projects authorized under the Transmission Statute; (3) Renewable Statute projects; and (4) Greenhouse gas projects.

It has been the Company's past practice in TCR petitions to request approval for recovery of the total costs under a single recovery mechanism—the TCR Rider. As noted by the Company this specific TCR Petition includes only transmission Statute projects and Grid Modernization-Distribution projects.⁸

It is staff's understanding that Xcel intends to file its next TCR rider on November 1 at the same time as their next General Rate Case and could result in a contested case. Additionally, staff notes there are several currently open Dockets relevant to the instant TCR rider petition's recovery of the ADMS grid modernization project. Specifically, in the Commission's July 23, 2020 Order in Docket No. E-002/M-19-666, Xcel's grid modernization projects for Advanced Metering Infrastructure (AMI) and Field Area Network (FAN) were certified although no specific cost recovery was approved. The Company filed a compliance filing identifying procedural paths forward for cost recovery in Docket No. E-002/M-20-680. As it stands the AMI and FAN certified projects have not received cost recovery and likely will be included in the soon to be filed TCR rider as noted above.

⁴ ORDER APPROVING PETITION AS REVISED AND CLARIFYING REVIEW OF ANNUAL TCR RIDER UPDATES, In the Matter of a Petition by Northern States Power Company d/b/a Xcel Energy, Inc. For Approval of 2008 TRC Project Eligibility, TCR Rate Factors, Tariff Modification to Include Cost Recovery Under Greenhouse Infrastructure Statute, Deferred Accounting Request, Transmission Study Cost Recovery, 2007 True Up Report, DOCKET NO. E-002/M-07-1156 (March 20, 2008)

⁵ Informal Letter Order, In the Matter of Xcel Energy's Petition for approval of 2009 Transmission Cost Recovery (TCR) Project Eligibility, TCR Rate Factors, Continuation of Deferred Accounting, and 2008 True-up Report, Docket No. E-002/M-08-1284 (June 25, 2009)

⁶ ORDER AUTHORIZING RIDER RECOVERY, SETTING RETURN ON EQUITY, AND SETTING FILING REQUIREMENTS, In the Matter of the Petition of Northern States Power Company for Approval of the Transmission Cost Recovery Rider Revenue Requirements for 2017 and 2018, and Revised Adjustment Factor, Docket No. E-002/M-17-797 (September 27, 2019)

⁷ ADMS was certified in the June 28, 2016 Order in Docket No. E-002/M-15-962

⁸ See Xcel Petition Transmission Cost Recovery Rider, November 15, 2019, Docket No. E-002/M-19-721 at 6.

B. Xcel's Petition in this Docket

On November 15, 2019, Xcel Energy filed its initial Petition in this matter *inter alia* asking for TCR adjustment factors to be included on the Company's Resource Adjustment line the first day of the month following the Commission's order and assuming a February 1, 2020 implementation date consistent with the required 60-day notice before a rate or tariff change.

On December 9, 2019, the Department responded to the Petition and requested the Commission grant provisional approval of Xcel's Petition with the understanding that a final decision will be made at a later date consistent with the comment schedule.

The Commission's February 21, 2020, Order in this docket granted the provisional approval of Xcel's Petition and extended the comment deadline⁹.

On February 26, 2020, Xcel Energy filed its provisional tariff sheet for implementation on March 1, 2020.

On October 16, 2020, the Department submitted comments on the initial Petition in this matter.

On October 30, 2020, Xcel Energy submitted its reply comments requesting *inter alia* full approval of its TCR Rider revenue requirements and associated Adjustment Factors.

On January 6, 2021, Commission Staff submitted an Information Request (IR) to Xcel Energy related to this docket and Xcel's 2020 Hosting Capacity Analysis Report.¹⁰

On January 25, 2021, Xcel Energy responded to the Commission's IR.

On August 11, 2021, the Department submitted Response Comments to Xcel Energy's reply comments dated October 16, 2020.

On September 13, 2021, Department submitted a letter further responding to Xcel's reply comments and an informal IR.

IV. Xcel Energy's Initial Petition

Xcel's November 15, 2019 Petition for TCR rider requests cost recovery for three broad categories of projects (1) costs related to a new transmission project, Huntley-Wilmarth 345 kV

⁹ By Letter dated December 9, 2019, the Department requested the Commission provisionally grant Xcel's Petition noting the TCR Revenue Requirement results in a decrease as compared to the previously approved TCR Revenue Requirement. In its February 21, 2020 Order, the Commission provisionally approved Xcel's TCR Rider Revenue Requirements and adjustment factors and extended the initial comment deadline. Xcel filed its Revised Tariff sheets and set the TCR Rider adjustment factors effective for electric customers bills starting March 1, 2020

¹⁰ In the Matter of the Xcel Energy 2020 Hosting Capacity Report Under Minn. Stat. §216B.2425, Subd. 8, Docket No. E-002/M-20-812 (Order Pending).

Transmission line; (2) costs related to a certified distribution grid modernization project, Advanced Distribution Management System (ADMS); and (3) costs for transmission projects currently in the TCR Rider but only until final rates are implemented at the conclusion of Xcel's November 1, 2019 rate case.¹¹

Xcel proposes approval of approximately \$81.9 million in TCR Rider revenue requirements (a decrease of approximately \$8 million or ~9% as compared to the previous TCR approved revenue requirements) for 2020 with a February 1, 2020 proposed implementation date for TCR adjustment factors to be incorporated into electric customers bills in the Resource Adjustment line item. Xcel proposes revenue recovery for the TCR Rider be allocated to customer classes consistent with how responsibility for the Company's demand (capacity) costs are allocated according to its demand allocation factors approved in Xcel Energy's most recently approved electric rate case (Docket No. E-002/GR-15-826).

Xcel's proposed TCR Revenue Requirement and adjustment factors by customer class are presented below as well as the previously approved Revenue Requirement and adjustment factors for comparison.

Table 1. Current and Proposed/Provisionally Approved TCR Revenue Requirement and Adjustment Factors

	2018 <u>Previously Approved</u>	2020 <u>Proposed/Provisionally Approved</u>
Total TCR Revenue Requirements (\$):	\$89,917,029	\$81,883,541
TCR Adjustment Factors by Customer Class:		
Residential Rate (\$/kWh)	\$0.003948	\$0.003607
Commercial Non-Demand (\$/kWh)	\$0.003486	\$0.003185
Commercial Demand (\$/kW)	\$1.074	\$0.982

According to Xcel in 2020 an average residential electric customer, using 675 kWh of electricity per month, would see a reduction of \$0.23/month as compared to their current TCR adjustment factor given the total Revenue Requirement decrease from \$89.9 million from the 2018 approved TCR Rider.¹²

In its February 21, 2020 Order, in this docket, the Commission provisionally approved Xcel's request.

¹¹ See Attachment 1 and 1A of Xcel Energy's Petition for more detail on eligible projects. Staff note: the 2019 rate case was subsequently withdrawn with the Commission's March 13, 2020 Order in Docket No. E002/M-19-688 and the Company's April 7, 2020 Letter in Docket No. E002/M-19-564.

¹² *Supra* note 8, Appendix 1A at 2.

V. Discussion

A. Undisputed Issues

1. Huntley-Wilmarth 345 kV Transmission Line

Xcel Energy requests approval of the Huntley-Wilmarth 345 kV Transmission line project that is an approximately 50-mile transmission line between Xcel's existing Wilmarth Substation north of Mankato and ITC Midwest's Huntley Substation south of Winnebago, Minnesota. The Company proposes the project to be owned jointly as tenants in common with ITC Midwest. The Commission's August 5, 2019 Order granted a Certificate of Need for the project in Docket No. E-002/CN-17-184. Further, the MISO Board of Directors approved the project as a Market Efficiency Project in December 2016 in MISO's annual Transmission Expansion Plan (MTEP16).

The Department in its initial comments concludes the project is eligible for cost recovery under the Transmission Statute.¹³ Additionally, the Department notes Xcel's capital expenditures for the Project are below the escalated initial cost estimate and recommends the Commission approve the proposed recovery amount.

Decision Options:

1. Approve the Huntley-Wilmarth project as eligible for cost recovery under the TCR Rider and recovery of capital costs for the project.¹⁴ (Xcel, Department)

2. Previously Approved Transmission Projects

Xcel Energy requests continued approval of its existing TCR eligible projects¹⁵ consistent with previous TCR proceedings. The Company notes that all the currently approved Transmission projects receiving cost recovery through the TCR Rider are in service and the Company plans to roll the projects into base rates in the next General Rate Case.

The Department in its initial comment's notes "there has been no change in the eligibility status of any of the existing transmission projects", concluding the projects remain eligible for cost recovery under the Transmission Statute.¹⁶ Additionally, the Department notes Xcel's capital expenditures for the existing projects are either below the initial cost estimate or the escalated initial cost estimate and recommends the Commission approve the proposed recovery amounts for the projects.

¹³ See [Department of Commerce Comments](#), October 16, 2020 at 7

¹⁴ As requested in Xcel's Petition at 1-2 and agreed to by Department in Comments at 7-9

¹⁵ CapX2020 Fargo-Twin Cities; CapX2020 La-Crosse-Local; CapX2020 La Crosse-MISO; CapX2020 La Crosse-WI; CapX2020 Brookings-Twin Cities; La-Crosse Madison; CapX2020- Big Stone- Brookings

¹⁶ *Supra* note 13

Decision Options:

2. Approve recovery of capital costs for the existing TCR eligible Transmission projects and require Xcel to roll those projects into base rates at the Company's next general rate case.¹⁷ (Xcel, Department)
3. Approve recovery of capital costs for the existing TCR eligible Transmission projects and require Xcel to roll those projects into base rates at the Company's next general rate case and effective when interim rates go into effect. (Staff)

3. Accumulated Deferred Income Tax (ADIT)

Xcel notes in its initial Petition that it "has assumed no proration of ADIT for 2019 in this filing because we propose to implement the new rate after the 2019 test year has concluded."¹⁸ The company believes its treatment of its revenue requirements conforms with IRS regulation § 1.167(1)-1(h)(6) and retains the significant deferred tax benefits for its customers. The Department in its comments agrees with the Company's treatment but recommends Xcel updates its deferred income tax for 2020 in its reply comments reflecting the fact that 2020 is nearly complete.

In its reply comments, the Company notes that because the TCR rider rates were provisionally approved and thus implemented effective March 1, 2020 the true up must use the ADIT proration method from that effective date forward when adjusting for actuals. Because the original petition had assumed a February 1, 2020 effective date, in compliance, the Company was able to eliminate ADIT proration for the month of February resulting in a reduction of the revenue requirement by \$2,145.

In its response to the Company's reply comments the Department agrees with the treatment and the resulting revenue requirement reduction.

Decision Option

4. Approve Xcel Energy's treatment of the ADIT proration as petitioned and as modified in compliance and as referenced in its reply comments eliminating the ADIT proration for February 2020.¹⁹ (Xcel, Department)

4. Compliance Filing, True-Up Report, and Tracker Balances

Xcel Energy provides its specific tracker balances for the TCR Rider in Attachments 4-8 of the petition. Table 2 below is the "Summary of Tracker Balances" from Attachment 4 of the Company's Petition:

¹⁷ As requested in Xcel's Petition at 1-2 and agreed to by Department in Comments at 7-9

¹⁸ See Petition, November 15, 2019 at 17.

¹⁹ As requested in Xcel's petition at 17, and modified in Reply Comments at 6-7; and agreed to by the Department in Comments at 7

Table 2. Xcel Energy TCR Tracker Balance Summary

Annual Tracker Summary					
Line No:	Amounts in dollars	2018	2019	2020	2021
		Actual	Mixed	Forecast	Forecast
1	ADMS	1,171,589	1,998,824	5,154,785	6,460,723
2	Big Stone-Brookings	4,302,758	4,104,418	4,005,316	3,889,018
3	CAPX2020 Brookings	33,786,412	32,899,527	32,294,421	31,531,051
4	CAPX2020 - La Crosse Local	4,385,486	4,037,035	4,190,729	4,066,245
5	CAPX2020 - La Crosse MISO	5,609,997	5,398,997	5,270,019	5,144,564
6	CAPX2020 - La Crosse MISO - WI	10,930,203	10,370,757	10,093,278	9,750,252
7	CAPX2020 Fargo	15,497,657	14,825,199	14,433,305	14,034,998
8	Huntley - Wilmarth	-	205,462	1,160,070	3,668,064
9	LaCrosse - Madison	9,547,041	16,179,062	16,009,721	15,478,096
10	MISO RECB Sch.26/26a	(174,749)	(8,372,475)	(3,202,305)	(6,779,681)
11	Transmission Projects	85,056,394	81,646,805	89,409,339	87,243,331
12	Revenue Requirement in Base Rates (ADMS)*	(701,000)	(1,937,000)	(1,937,000)	(1,937,000)
13	TCR True-up Carryover	5,561,635	1,036,546	(5,588,798)	(1,101,880)
14	Revenue Requirement (RR)	89,917,029	80,746,350	81,883,541	84,204,451
15	Revenue Collections (RC)	88,880,483	86,335,148	82,985,421	85,728,191
16	Carry Over Balance	1,036,546	(5,588,798)	(1,101,880)	(1,523,740)

The Department notes that the Company’s calculations “appear reasonable and consistent with past TCR Rider filings.”

Decision Option

5. Approve Xcel Energy’s Compliance Filing, True-Up Report, and Tracker Balances in the Company’s November 15, 2019 Petition including any updates upon final Commission Order. (Xcel, Department)

5. Rate of Return on Investment

Pursuant to the Transmission Statute, public utilities are allowed to receive a return on investment as approved in their last general rate case unless a different rate is found to be consistent with the public interest.²⁰ The Commission’s September 27, 2019 Order in the Company’s previous TCR Rider (Docket No. E-002/M-17-797) required Xcel Energy to use 9.06% for all proceedings until a new Return on Equity has been established in its next rate case. The Department concludes that Xcel’s Return on Equity in this instant petition is consistent with the 9.06%.

Decision Option

6. Approve Xcel Energy’s Return on Equity of 9.06% in the 2019-2020 TCR Rider.²¹ (Xcel, Department)

²⁰ Minn. Stat. § 216B.16 subd. 7b(b)(6)

²¹ See Xcel’s November 15, 2019 petition at 18 and Department Comments at 19

6. Internal Capitalized Labor

The Department notes and agrees with the fact that consistent with previous TCR proceedings the Company has removed internal capitalized labor costs when calculating its TCR rider revenue requirements.

Decision Option

7. Approve Xcel Energy's Revenue Requirements as petitioned which does not include internal capitalized labor costs.²² (Xcel, Department)

7. Allocation of Costs

Because Xcel Energy operates their system as a single integrated system, the Company follows a three-step process to ultimately allocate costs to the Minnesota Jurisdiction. The process for allocating costs to the Minnesota jurisdiction follows Xcel's Demand Allocator process as used in its previous electric rate case in Docket No. E-002/GR-15-826;—Step 1) the Company used its budgeted interchange agreement allocators for 2019 and 2020 to allocate between NSPM and NSPW; Step 2) the Company used its coincident peak demand based on a 36-month average to allocate NSPM costs among its 3 state jurisdictions; Step 3) the Company used its D10S allocator from its 2016 Rate Case which uses the Company's system coincident peak with the MISO system peak to allocate costs among its Minnesota jurisdiction customer classes. This three-step process is outlined below. The actual percentage values for step 1 and 2, can be found in Attachment 10 of the Company's Petition, and are in Table 3 below.

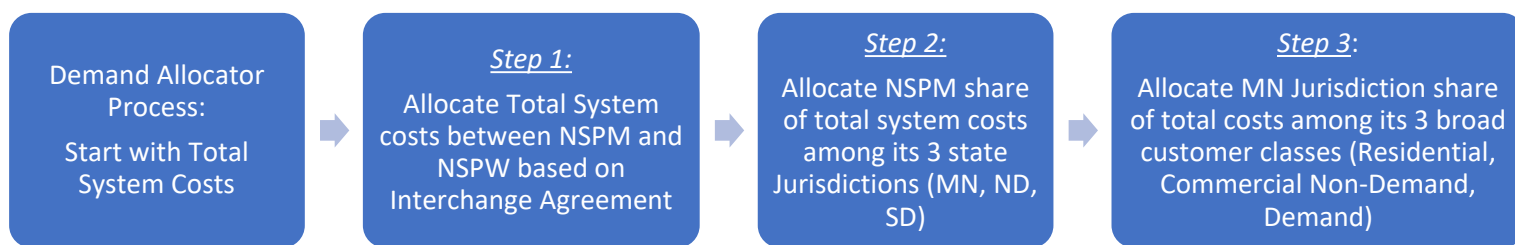


Table 3: Minnesota Jurisdiction Allocation of Costs

	2018	2019	2020	2021
<u>Step 1:</u> MN 12-month CP demand	87.3461%	87.3461%	87.3461%	87.3461%
<u>Step 2:</u> NSPM 36-month CP demand	84.2615%	83.8864%	83.9342%	83.7041%
MN Jurisdictional Allocator of Total Cost	73.5991%	73.2715%	73.3133%	73.1123%

The Department notes in its comments that the allocation of costs to the Minnesota jurisdiction and to its customer classes are consistent with past practice and concludes both are reasonable.

²² See Xcel's November 15, 2019 petition at 20 and Department Comments at 20

Decision Options

8. Approve Xcel Energy's process and calculations for allocation of costs as proposed. (Xcel, Department)

8. Adjustment Factors, Tariff Revisions, and Customer Notice

Xcel Energy's requested approval of the adjustment factors, tariff revisions, and customer notice related to the TCR cost recovery in its initial TCR Rider petition. The requested adjustment factors were shown in table 1 above and represent a savings for all of MN customer classes as compared to the previously approved TCR Rider adjustment factors for 2017-2018.

Pursuant to the Commission's February 21, 2020 Order, the petitioned adjustment factors, tariff revisions, and customer notice were provisionally approved and have been in effect since March 1, 2020. In its petition, Xcel Energy requests the ability to recalculate its adjustment factors based on the date of the final Commission Order, and further in its reply comments requested to move the provisional approval to full approval. Additionally, Xcel noted in its compliance filing on February 26, 2020, implementing the provisionally approved adjustment factors, that it worked with the Commission's Consumer Affairs Office on the customer notice language.

Decision Options

9. Fully approve Xcel Energy's adjustment factors, tariff revisions, and customer notice as petitioned.²³ (Xcel, Department)

B. Disputed Issues

1. Advanced Distribution Management System (ADMS) Project

a. Background

As described by Xcel, the Advanced Distribution Management System (ADMS) "is the foundational software platform for operational hardware and software applications used to operate the current and future distribution grid.²⁴ The Commission certified the ADMS project in its June 28, 2016 Order in Docket E-002/M-15-962, however it noted in that order that:

"[t]he Commission's decision represents only a finding that the project is consistent with the requirements of section 216B.2425. Any rider recovery of costs associated with the project will be determined in response to a petition for rider recovery of those costs under Minn. Stat. § 16B.16, subd. 7b. At that time, Xcel will have the burden of establishing the prudence of the costs it requests to recover through the TCR Rider".

²³ See Xcel's October 30, 2020 reply comments at 7

²⁴ Xcel *Petition Transmission Cost Recovery Rider*, November 15, 2019, Docket No. E-002/M-19-721 Appendix 1A at 1.

Initially, Xcel estimated its annual ADMS capital costs would be approximately \$9 million for 2016-2018 for a total of \$27 million for the Minnesota Jurisdiction, and would be complete in 2018.

In the Company's previous TCR Rider, Docket No. E-002/M-17-797, Xcel increased the total estimated capital costs for the project to \$69.1 million for the Minnesota jurisdiction.²⁵

In this Petition, Xcel continues to estimate the total capital costs for the Minnesota jurisdiction at \$69.1 million through 2025. Xcel Energy is requesting revenue requirements of \$27.2 million in ADMS capital costs for the Minnesota jurisdiction through 2020, which is in addition to the approximately \$6.6 million in ADMS capital costs already included in base rates through 2020.²⁶

b. Department Comments

The Department's initial comments on the ADMS project focus on three points; cost recovery cap; ongoing compliance for the project; and depreciation expenses.

Cost Recovery Cap

For cost recovery caps, the Department cites the Commission's April 27, 2010 Order in Xcel's TCR Rider Petition in Docket No. E-002/M-09-1048:

In setting guidelines for evaluating project costs going forward, the TCR project cost recovered through the rider should be limited to the amounts of the initial estimates at the time the projects are approved as eligible projects, with the opportunity for the Company to seek recovery of excluded costs on a prospective basis in a subsequent rate case. A request to allow cost recovery for project costs above the amount of the initial estimate may be brought forward

²⁵ "We now estimate the total Minnesota budget for ADMS to be \$69.1 million (on a MN basis) across the span of 10 years- through 2025- (with \$25 million of that investment being spent between 2016-2018, consistent with our 2015 initial estimate)." Xcel *Petition Transmission Cost Recovery Rider*, November 8, 2017, Docket No. E002/M-17-797, Attachment 1A at 1, and 19.

²⁶ See Petition, this docket November 15, 2019 at 9.

"In this Petition, we are seeking approval of the revenue requirements based on approximately \$27.2 million in forecasted ADMS capital expenses, incremental above base rates, through 2020. The table below shows the derivation of this amount, compared to the amount approved for recovery in Docket No. E002/M-17-797 for the period through 2018."

Xcel Table 1: ADMS Capital Expenditures

	Through 2018	Through 2020
Total project expenditures	\$18,778,023	\$38,760,870
State of Minnesota Electric Intangible Allocator	87.5582%	87.0691%
State of Minnesota allocated expenditures	\$16,441,699	\$33,748,741
Capital spend - Base Rate Removal (MN Jurisdiction)	\$(6,137,058)	\$(6,571,608)
Net capital spend requested in MN TCR	\$10,304,641	\$27,177,133

for Commission review only if unforeseen and extraordinary circumstances arise on the project

The Department further notes the Commission applied this same approach to Otter Tail Power Company in its 2013 TCR Rider in Docket No. E-017/M13-103 stating in its March 10, 2014 Order that, “[t]he TCR rider mechanism gives Otter Tail the extraordinary ability to charge its ratepayers for facilities prior to the ordinary timing (the first rate case after the project goes into service) and without undergoing the full scrutiny of a rate case. Holding the Company to its initial estimate is an important tool to enforce fiscal discipline.” Given the prior Commission Orders the Department recommends that to protect ratepayers from unreasonable costs, the Commission confirm the Department’s understanding that the TCR rider recovery costs for the ADMS project have a soft cost recovery cap at the existing and previously approved recovery amount of \$69.1 million.

On-Going Compliance

For the ongoing compliance of the ADMS project the Department notes the Commission’s September 27, 2019 Order in the previous TCR Rider, Docket No. E-002/M-17-797 in Ordering Paragraph (OP) 9 requires that “[i]f and when Xcel request cost recovery for Advanced Grid Intelligence and Security (AGIS) investments, the filing must include a *business case and comprehensive assessment of qualitative and quantitate (sic) benefits to customers*” (emphasis added). The Department notes that Xcel did not address the specifics found in this OP which it finds is likely reasonable for Xcel to have assumed OP 9 was limited to AGIS and not the ADMS project specifically. The Department brings up this point to convey the similarity in language between OP 9 and OP 6 of the September 27, 2019 Order²⁷. The Department notes Xcel did comply with OP 6 and merely wanted to flag the language similarity as a potential action item for the Commission to clarify.

Depreciation

For the Depreciation expenses of the ADMS project the Department notes Xcel based the depreciation expense on a 10-year life which was approved by the Commission in Docket No. E-002/D-17-581. The Department highlights that changes have been made to the estimated expected useful life of the equipment and facilities for the AGIS initiative in Xcel’s depreciation filing in Docket No. E-002/D-20-635²⁸ and requests clarity from the Company if those changes impact the currently approved 10-year life. If there are changes to the depreciation expenses the Department requested that Xcel incorporate those changes and update the cost recovery calculations if needed.

²⁷ OP 6 states “Xcel must include in any future cost recovery filing for ADMS investments an ADMS *business case and a comprehensive assessment of qualitative and quantitative benefits to customers*”. (emphasis added)

²⁸ Informal Letter Order, In the Matter of the Petition of Northern State Power Company (Xcel) for Approval of its 2020 Annual Review of Transmission, Distribution, and General Depreciation Certification, Docket No. E,G-002/D-20-635 (March 24, 2021), at 7, 9-10, and 15

c. Xcel Energy Reply Comments

Cost Recovery Cap

As it relates to cost recovery caps, in its October 30, 2019 reply comments, Xcel Energy pushes back against the Department's assertion that a cost recovery cap is appropriate for the ADMS project. The Company believes that the Commission must determine whether the costs requested are "prudent" and that a cost cap is merely *one* tool the Commission can use to assess prudence. Xcel believes cost caps, as a means to assess prudence, are more appropriate for projects with "well-established costs and benefits" citing specifically transmission line projects.²⁹

Xcel distinguishes the ADMS project from those well-established programs by citing the fact that ADMS is a relatively new project with less certainty about its total cost. Xcel ultimately recommends that instead of putting a price cap on the project the Commission "consider a transparent, holistic review process where we detail the projects, our oversight and governance of the projects and expenditures, and demonstrate the steps and actions we have taken to manage costs in the short-and-long term."³⁰

On-Going Compliance

As it relates to the ongoing compliance requirements for the ADMS project, Xcel Energy confirms the Department's comments that it was the Company's assumption that OP 9 did not apply to the ADMS hence no affirmative response was provided in this instant TCR Petition.

Depreciation

As it relates to the depreciation expense question posed by the Department, Xcel Energy notes that none of the changes in the open Depreciation Docket (Docket No. E-002/D-20-635) impact the ADMS components in the TCR Rider. The Company states if the Commission orders any changes to ADMS in the Depreciation docket it would adjust the depreciation lives in its next TCR Rider proceeding. Xcel does note however, that it "misstated" the life of ADMS software in its Petition wherein it stated it was 10 years when it should have been 5 years. The impact of this change, Xcel states is "minimal", resulting in an additional cost of \$35,000 in 2019 and \$304,000 in 2020.

d. Department Response Comments

Cost Recovery Cap

The Department disagrees with Xcel on the applicability of cost recovery caps for newer projects like ADMS. The Department believes these types of projects are even more important to have cost caps given the "extraordinary ratemaking" power riders give utilities by allowing them to charge customers outside of the traditional ratemaking timelines. In addition, the Department highlights that any cost cap in the instant rider would be a *soft* cap price, and Xcel Energy could always seek recovery of any costs above any TCR Rider cost cap in a future rate case.

²⁹ See Xcel Energy reply comments, October 30, 2019 at 2.

³⁰ *Id.* at 3.

Depreciation

In a letter dated September 13, 2021 the Department supplemented its August 11 response comments noting it inadvertently omitted responses related to the Depreciation lives for the ADMS project. The Department sought clarity from Xcel via an informal information request sent by email about the Company's depreciation information contained in their reply comments. Xcel provided clarity on their FERC account tracking of the depreciation lives as requested by the Department and updated supporting calculations. The Company indicated after a Commission Order it would submit a compliance filing showing the final rates. The Department concluded in its letter that Xcel supported its updated Depreciation life updates from 10 to 5 years and the Department supported the Company's changes in revenue requirements.

e. Staff Analysis

Staff submitted an Information Request (IR) to Xcel Energy in this proceeding on January 6, 2021, requesting responses to five questions largely seeking to better understand how the specific costs for the ADMS project in the instant TCR Rider proceeding interact with the Hosting Capacity Analysis (HCA) report in Docket No. E-002/M-20-812 which identified a "conceptual cost" of \$40-48 million for *inter alia* field verification.

Xcel's responses to the IR note there are some overlaps in the *primary system* aspect of the HCA field data verification and the data verification being performed for the ADMS project.³¹ Xcel notes that if the Commission determines the HCA should be advanced it would do a more detailed project cost analysis upon such a determination and would incorporate any overlaps with the ADMS project and would inform the Commission of such overlaps and their implications to the HCA.

Staff highlights the fact that the ADMS project was the first distribution grid modernization project to receive certification from the Commission and to seek cost recovery via the Transmission Statute. As such there is little precedent on how exactly cost recovery for such a project should occur in a TCR Rider. That said the Commission has previously imposed "soft caps" on recovery in various Riders.³² It will be necessary to weigh the interests of the Company's goal of implementing a relatively new "tool" necessary for grid modernization with a somewhat fluid total cost against the public's interest in paying reasonably prudent prices for certified grid modernization projects.

³¹ See Xcel Energy Response to Information Request, January 25, 2021 at 4

³² See June 29, 2021 Order in Docket No. E-015/M-20-828, approving a soft cap on recovery through Minnesota Power's Solar Energy Adjustment (SEA) Rider; June 30, 2015 Order in Docket No. E-015/CN-12-1163, granting Minnesota Power's Certificate of Need for the Great Northern Transmission Line and putting the Company on notice about a soft cap on recovery; April 27, 2010 Order in Docket No. E-002/M-09-1048 approving TCR Rider cost recovery but setting soft cap for recovery in the TCR Rider.

f. Decision Options and Alternatives

Cost Recovery Cap

10. Approve cost recovery for Xcel Energy's ADMS project as requested at \$69.1 million, including \$27.2 million in forecasted capital expenses above base rates in 2019 and 2020 with no soft cost cap for TCR Rider Recovery. (Xcel)

OR

11. Approve cost recovery for Xcel Energy's ADMS project as requested at \$69.1 million, including \$27.2 million in forecasted capital expenses above base rates in 2019 and 2020 and confirm a soft cost cap of \$69.1 million for TCR Rider recovery on the project. (Department)

On-Going Compliance

12. Confirm Xcel Energy has met the requirements in Ordering Paragraph 6 of the Commission's September 27, 2019 Order in the previous TCR Docket No. E-002/M-17-797. (Xcel, Department)

AND

13. Clarify that Ordering Paragraph 9 of the Commission's September 27, 2019 Order in the previous TCR Docket No. E-002/M-17-797 is not applicable to the ADMS project. (Department Clarifying Only Request)

OR

14. Clarify that Ordering Paragraph 9 of the Commission's September 27, 2019 Order in the previous TCR Docket No. E-002/M-17-797 is also applicable to the ADMS project and Delegate to the Executive Secretary the authority to set a timeline for Xcel Energy to respond to OP 9 in this Docket. (Department Clarifying Only Request)

Depreciation

15. Approve Xcel Energy's revised depreciation life for ADMS software from 10 to 5 years as noted in its Reply comments and require Xcel Energy submit a compliance filing incorporating the revised revenue requirements within 10 days of the Commission Order. (Xcel, Department)

2. Wholesale Market & Other Federal Energy Regulatory Commission (FERC) Matters

a. Department Comments

In its October 16 comments, the Department responded to, and requested clarification on, several wholesale market and other FERC matters, specifically related to Regional Expansion Criteria and Benefits (RECB) Charges, Non-RECB Charges, FERC related return on equity interest adjustment, and the FERC transmission audit refund.

RECB Charges (Schedule 26/26A & 37 & 38)

Related to the RECB charges, the Department reiterates what the Company explained in its Petition that the TCR Rider revenue requirements are net of any revenues received from being a MISO participant. One potential revenue component related to Xcel's participation in MISO is the RECB which are accounted for in the Company's Schedule 26 and, for those specific projects which are deemed by MISO to be Multi-Value Projects (MVPs), Schedule 26A. In Xcel's petition it identifies in Attachment 4 "Annual Tracker Summary" the following revenues from these Schedules, which are netted in the TCR Rider cost recovery request:

Table 4: RECB Charges/Revenues

TCR Tracker Charges/Revenue	2018	2019	2020	2021
Data Type	Actuals	Mixed	Forecast	Forecast
Schedule 26/26A	\$174,749	\$8,372,475	\$3,202,305	\$6,779,681

The Department requested that in reply comments the Company separately identify the revenues from projects that are designated Multi Value Projects (MVPs) by the MISO. The Department also elaborates on the Company's MISO Schedule 37, revenue from American Transmission Systems, Inc. contributions for leaving MISO, and Schedule 38, revenue from Duke-Ohio and Duke-Kentucky leaving MISO and each entity's ongoing obligation to pay for MISO projects applicable during their previous membership. The Department requested Xcel provide more clarity on its Schedule 37 and 38 revenue.

Non-RECB Charges (OATT Credit)

The Department explains that the bulk of Minnesota's regulated utilities' transmission assets over 100 kV are considered Non-RECB eligible and are included in the utility's base rates and compensated in accordance with their FERC filed Open Access Transmission Tariff (OATT). Occasionally, there are Non-RECB eligible transmission projects that qualify for TCR Rider recovery (not included in base rates) whose revenue credits are commonly referred to as OATT Credit in TCR filings. The Department notes that Xcel's OATT credit amounts found in Attachment 13 of their Petition "appear reasonable and consistent with previous TCR filings."

FERC Related Return on Equity Interest adjustment

The Department notes that Xcel Energy's treatment in this Petition of ROE reductions required by the FERC from 12.38% to 10.82% "appears consistent with the requirements established in the last TCR Rider order."

FERC Transmission Audit

The Department notes that after the Company filed the instant TCR Rider petition it filed a letter with FERC in response to an audit of the Company's FERC Form 1 and Transmission Formula Rate. As a result of the audit Xcel noted it would refund \$3.9 million (includes \$0.82 million in interest) throughout 2021. The Department recommends Xcel clearly identify how this refund will be passed back to Minnesota ratepayers in its next TCR filing.

b. Xcel Energy Reply Comments

RECB Charges (Schedule 26/26A & 37 & 38)

Xcel Energy noted that for MVP projects in the TCR tracker it did not include any impacts in the forecasted months of October 2019-December 2021. The Company did provide updated actuals for October 2019-September 2020 and identified the MVP resources as requested by the Department. The Company also noted it will ensure that any future TCR filing includes forecasted MVP projects, and that if the Commission orders the Company to use actuals when setting the final adjustment factors the October 2019-December 2020 actuals will be included.

Xcel Energy explains that Schedule 37 and 38 revenue is incorporated into its Schedule 26/26A amounts and that from a budgeting perspective it is assumed the amounts will be collected and thus there is no need to specifically identify these amounts. That said, the Company in its reply comments did break out the actual Schedule 37 and 38 revenue as partly requested by the Department and if ordered will do so in future TCR filings including a forecast of revenue using a three-year average.

FERC Transmission Audit

Xcel Energy makes note that the refund for Transmission customers in 2021 will be incorporated into the 2021 Transmission formula rate meaning some components of the refund will be in base rates. However, the Company notes that any impacts to the Company's Schedule 26/26A resulting from the audit would be included in its next TCR rider filing.

c. Department Response Comments

RECB Charges (Schedule 26/26A & 37 & 38)

In its response the Department recommends the Commission require Xcel to use the actuals for October 2019-December 2020 when setting the final adjustment factors in this proceeding.

Further the Department notes that Xcel did not separately identify which amounts of forecasted Schedule 37 and 38 are included in the forecasted total Schedule 26/26A and recommends that the Commission require Xcel to do so.

FERC Transmission Audit

The Department recommends that the Company address any components of the audit that impacts base rates be included in its next General Rate Case and appreciates the Company's agreement to include the Schedule 26/26A impacted parts in its next TCR filing.

d. Decision Options and Alternatives

RECB Charges (Schedule 26/26A & 37 & 38)

16. Approve Xcel Energy's Schedule 26/26A revenue amounts as requested in its petition that incorporate no forecasted charges for Multi-Value Projects (MVP) Auction Revenue Rights (ARRs). (Xcel)

OR

17. Require Xcel Energy to use actuals for October 2019-December 2020 for MVP ARRs when setting the final adjustment factors. (Department)

18. Require Xcel Energy to specifically identify MVP ARRs in Schedule 26/26A in future TCR Rider Petitions including forecasted revenue. (Xcel, Department)

19. Approve Xcel Energy's Schedule 26/26A revenue amounts as requested in its petition that include non-separately identified forecasted Schedule 37 and 38 amounts. (Xcel)

OR

20. Require Xcel Energy to include actuals for Schedule 37 and 38 amounts when setting the final adjustment factors. (Department)

AND

21. Require Xcel Energy to separately identify both actual and forecasted amounts for Schedule 37 and 38 in future TCR Rider filings. (Department)

22. Approve Xcel Energy's OATT credit amounts as petitioned (Xcel, Department)

23. Determine Xcel Energy's treatment of the federally mandated reduction on Return on Equity for MISO transmission owners in this TCR Rider filing is consistent with the Commission's previous TCR Rider Order. (Department)

24. Require Xcel Energy to include in its next Multi-Year Rate Plan how specifically its FERC Transmission Audit refund impacts all components other than Schedule 26/26A. (Xcel, Department)

AND

25. Require Xcel Energy to include in its next TCR Rider filing how specifically its FERC Transmission Audit refund impacts Schedule 26/26A. (Xcel, Department)

VI. Decision Options

Undisputed Issues

Huntley-Wilmarth 345 kV Transmission Line

1. Approve the Huntley-Wilmarth project as eligible for cost recovery under the TCR Rider and recovery of capital costs for the project. (Xcel, Department)

Previously Approved Transmission Projects

2. Approve recovery of capital costs for the existing TCR eligible Transmission projects and require Xcel to roll those projects into base rates at the Company's next general rate case. (Xcel, Department)

OR

3. Approve recovery of capital costs for the existing TCR eligible Transmission projects and require Xcel to roll those projects into base rates at the Company's next general rate case and effective when interim rates go into effect. (Staff)

Accumulated Deferred Income Tax (ADIT)

4. Approve Xcel Energy's treatment of the ADIT proration as petitioned and as modified in compliance and as referenced in its reply comments eliminating the ADIT proration for February 2020. (Xcel, Department)

Compliance Filing, True-Up Report, and Tracker Balances

5. Approve Xcel Energy's Compliance Filing, True-Up Report, and Tracker Balances in the Company's November 15, 2019 Petition including any updates upon final Commission Order. (Xcel, Department)

Rate of Return on Investment

6. Approve Xcel Energy's Return on Equity of 9.06% in the 2019-2020 TCR Rider. (Xcel, Department)

Internal Capitalized Labor

7. Approve Xcel Energy's Revenue Requirements as petitioned which does not include internal capitalized labor costs. (Xcel, Department)

Allocation of Costs

8. Approve Xcel Energy's process and calculations for allocation of system costs as petitioned. (Xcel, Department)

Adjustment Factors, Tariff Revisions, and Customer Notice

9. Fully approve Xcel Energy's adjustment factors, tariff revisions, and customer notice as petitioned. (Xcel)

Disputed Issues

Advanced Distribution Management System (ADMS) Project

Cost Recovery Cap

10. Approve cost recovery for Xcel Energy's ADMS project as requested at \$69.1 million, including \$27.2 million in forecasted capital expenses above base rates in 2019 and 2020 with no soft cost cap for TCR Rider Recovery. (Xcel)

OR

11. Approve cost recovery for Xcel Energy's ADMS project as requested at \$69.1 million, including \$27.2 million in forecasted capital expenses above base rates in 2019 and 2020 and confirm a soft cost cap of \$69.1 million for TCR Rider recovery on the project. (Department)

On-Going Compliance

12. Confirm Xcel Energy has met the requirements in Ordering Paragraph 6 of the Commission's September 27, 2019 Order in the previous TCR Docket No. E-002/M-17-797. (Xcel, Department)

AND

13. Clarify that Ordering Paragraph 9 of the Commission's September 27, 2019 Order in the previous TCR Docket No. E-002/M-17-797 is not applicable to the ADMS project. (Department Clarifying Only Request)

OR

14. Clarify that Ordering Paragraph 9 of the Commission's September 27, 2019 Order in the previous TCR Docket No. E-002/M-17-797 is also applicable to the ADMS project and Delegate to the Executive Secretary the authority to set a timeline for Xcel Energy to respond to OP 9 in this Docket. (Department Clarifying Only Request)

Depreciation

15. Approve Xcel Energy's revised depreciation life for ADMS software from 10 to 5 years as noted in its Reply comments and within 10 days of the Commission Order submit a compliance filing incorporating the revised revenue requirements. (Xcel, Department)

Wholesale Market & Other Federal Energy Regulatory Commission (FERC) Matter

RECB Charges (Schedule 26/26A & 37 & 38)

16. Approve Xcel Energy's Schedule 26/26A revenue amounts as requested in its petition that incorporate no forecasted charges for Multi-Value Projects (MVP) Auction Revenue Rights (ARRs). (Xcel)

OR

17. Require Xcel Energy to use actuals for October 2019-December 2020 for MVP ARR when setting the final adjustment factors. (Department)

18. Require Xcel Energy to specifically identify MVP ARRs in Schedule 26/26A in future TCR Rider Petitions including forecasted revenue. (Xcel, Department)

19. Approve Xcel Energy's Schedule 26/26A revenue amounts as requested in its petition that include non-separately identified forecasted Schedule 37 and 38 amounts. (Xcel)

OR

20. Require Xcel Energy to include actuals for Schedule 37 and 38 amounts when setting the final adjustment factors. (Department)

AND

21. Require Xcel Energy to separately identify both actual and forecasted amounts for Schedule 37 and 38 in future TCR Rider filings. (Department)

22. Approve Xcel Energy's OATT credit amounts as petitioned. (Xcel, Department)

23. Determine Xcel Energy's treatment of the federally mandated reduction on Return on Equity for MISO transmission owners in this TCR Rider filing is consistent with the Commission's previous TCR Rider Order. (Department)

24. Require Xcel Energy to include in its next Multi-Year Rate Plan how specifically its FERC Transmission Audit refund impacts all components other than Schedule 26/26A. (Xcel, Department)

AND

25. Require Xcel Energy to include in its next TCR Rider filing how specifically its FERC Transmission Audit refund impacts Schedule 26/26A. (Xcel, Department)