

October 16, 2015

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: Response of the Minnesota Department of Commerce, Division of Energy Resources to Northern States Power Company, doing business as Xcel Energy's Reply Comments; Xcel Energy's Petition for Approval of Cost Allocation Modifications to its Service Agreement with Xcel Energy Services, Inc.
Docket No. E, G002/M-15-536

Dear Mr. Wolf:

In its August 7, 2015 Comments in the above-referenced matter, the Minnesota Department of Commerce, Division of Energy Resources (Department) recommended that the Minnesota Public Utilities Commission (Commission) approve Northern States Power Company, doing business as Xcel Energy's (Xcel or the Company) requested changes to cost allocations for the Claims Services department and Customer Contact department and deny the proposed change to allocating the costs of the Supply Chain department.

The Department also concluded that Xcel had not met its burden of proof to show that its proposal to allocate costs for the Rates and Regulation department based on the Revenue Ratio is reasonable. The Department requested that the Company provide estimates of the costs that would have been allocated to the Minnesota jurisdiction using the Labor Dollars Ratio as compared to the Revenue Ratio for 2014 and 2015 in its Reply Comments.

Xcel submitted its Reply Comments on August 17, 2015. The Department has reviewed the Company's Reply Comments and addresses the points of response below:

A. SUPPLY CHAIN SERVICE FUNCTION

The Company provided some additional explanation as to the extent of its proposed use of the Invoice Transaction Ratio for this service function. Xcel's proposal is that it will use the Invoice Transaction Ratio only to allocate the costs associated with the management and oversight of the payment and reporting services included in the Supply Chain department. Xcel also proposed the following definition for the method of allocation for its Supply Chain costs, which is shown as red-lined compared to the current language.

Supply Chain will be direct charged, ~~and administrative support functions.~~ Any management and oversight of the payment and reporting services activities that cannot be direct charged will be allocated using the ~~Labor Dollars~~ Invoice Transaction Ratio.

For ease of reference, the Company's initially proposed definition was:

Supply Chain will be direct charged, and administrative support functions that cannot be direct charged will be allocated using the ~~Labor Dollars~~ Invoice Transaction Ratio.

The Department appreciates the Company's efforts to clarify its cost allocation process for the Supply Chain department. It is helpful that Xcel clarified that most if not all costs will be direct charged. With the understanding that the general allocator would rarely be used, the DOC now recommends approval of Xcel's proposed changes to its Supply Chain allocation factor.

B. RATES AND REGULATION

Xcel provided additional background and an explanation of its process for directly assigning and allocating labor costs for this department as well. The Company offered "to conduct an analysis comparing a labor-based allocation method to the Revenue Ratio and present our findings in our next annual filing."¹ Xcel did not provide an estimated allocation of Rates and Regulation costs to the Minnesota jurisdiction for 2014 and 2015 under the Labor Dollar Ratio and Revenues Ratio, contrary to the Department's request.

While the Company's clarification of its cost assignment/allocation process for Rates and Regulation was informative, the Company's reply comments did not explain why revenues would be an appropriate basis to allocate costs of the Rates and Regulation group. Nor did the Company address the concerns raised on page 10 of the Department's August 7, 2015 comments:

As with the Supply Chain department, Xcel's description of the Rate and Regulation department indicates significant labor-intensiveness of the work. Moreover, the cost of this department is largely labor. Consequently, it appears that the appropriate allocator for the Rates and Regulation department is the Labor Dollars Ratio.

It is particularly important to allocate the costs of Rates and Regulation using the Labor Dollars Ratio rather than the Revenue Ratio since the Rates and Regulation department must spend time to establish a new affiliate (such as the recent affiliated transmission companies discussed in Docket E002/AI-14-759). Prior to any revenues existing for the new affiliate, it would not be fair to allocate all costs of establishing a new affiliate to the regulated operations.

¹ Xcel Reply Comments at page 4.

While the Department appreciates the Company discussion of its efforts to properly assign costs to its affiliates, either through direct assignment or through allocation, the Department believes that there is an incentive for managers or employees who work for affiliates to minimize the costs assigned or allocated to those affiliates. The Department also believes that this incentive is particularly strong for affiliates that are not currently generating revenue (or profit). The use of a labor-based ratio appears to provide an improvement when compared to a revenue-based ratio in that costs that are not directly assigned will, at a minimum, be allocated on the basis of the work the Company's employees are currently performing.

Finally, the Department was disappointed that Xcel refused to provide the comparison the Department had requested in its Reply Comments. The DOC believes that such a comparison would be useful to the Department and the Commission in its evaluation of the proposed change and in ensuring that rates are reasonable.

Consequently, the Department maintains its earlier position that Xcel has not met its burden of proof in regards to the allocation of costs for the Rates and Regulation department on the basis of the Revenue Ratio is reasonable.

Conclusions and Recommendations

The Department recommends that the Commission approve the proposed language to the Company's Administrative Services Agreement with Xcel Energy Services, Inc. for the proposed changes to its Claims Services, Customer Contact and Supply Services departments. The Department also recommends that the Commission deny the proposed language included in the Company Administrative Services Agreement with XES regarding its Rates and Regulation department. Finally, the Department continues to request that Xcel provide the estimated allocation of Rates and Regulation costs to the Minnesota jurisdiction for 2014 and 2015 under the Labor Dollar Ratio and Revenue Ratio.

The Department is available to answer any questions that the Commission may have.

Sincerely,

/s/ JOHN KUNDERT
Financial Analyst

JK/lt

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce
Response to Reply Comments**

Docket No. E,G002/M-15-536

Dated this 16th day of October 2015

/s/Sharon Ferguson

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