

**Minnesota Public Utilities Commission**  
*Staff Briefing Papers – Volume II of V*  
*Financial Issues*

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**Meeting Date:** July 9, 2015 ..... **Agenda Item # 5 \*\***

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**Company:** Northern States Power Company d/b/a Xcel Energy (Xcel or the Company)

**Docket No.** E-002/GR-13-868  
In the Matter of the Application of Northern States Power Company for  
Authority to Increase Rates for Electric Service in the State of Minnesota

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**Issues:** Should the Commission grant the petitions for reconsideration of its May 8, 2015 Order as requested by Xcel Energy, the Department of Commerce and the Office of the Attorney General?

Should the Commission clarify how Xcel should treat Sherco 3 insurance proceeds for ratemaking purposes?

Should the Commission clarify how Xcel should treat the proceeds from the settlement of the Babcock & Wilcox Nuclear Energy, Inc. lawsuit for ratemaking purposes?

Should the Commission clarify the in-service date of the Monticello EPU project?

Should the Commission clarify whether the 2015 cost of capital applies to the total rate base?

Should the Commission make corrections to its May 8, 2015 Order’s financial schedules?

**Staff:** Jorge Alonso (Financial – Vol. II)..... 651-201-2258

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***Relevant Documents***

(This list is also on the list of relevant documents for Vol. I of the staff briefing papers.)

PUC – FINDINGS OF FACT, CONCLUSIONS, AND ORDER ..... May 8, 2015

Petitions for Reconsideration

Xcel – Petition for Reconsideration..... May 28, 2015

Department – Request for Reconsideration and Clarification ..... May 28, 2015

OAG – Petition for Reconsideration ..... May 28, 2015

Answers to Petitions for Reconsideration

Xcel – Response to Petitions for Reconsideration and Comments ..... Jun. 8, 2015  
Department – Response to Xcel’s Request for Reconsideration and/or Clarification Jun. 8, 2015  
OAG – Answer to Petition for Reconsideration filed by Xcel ..... Jun. 8, 2015

Sherco 3 – Insurance Proceeds

Xcel - Sherco 3 Compliance Filing – Final Report (TS) ..... Mar. 31, 2015  
Xcel – Compliance Filing – Preliminary Schedules ..... Apr. 24, 2015  
OAG – Letter ..... May 7, 2015  
OAG – Comments (TS) ..... May 22, 2015  
Department – Comments ..... May 27, 2015

Xcel Energy & Babcock & Wilcox Nuclear Energy, Inc. - Dispute

*(Filings submitted prior to the Commission’s March 26 meeting & deliberations)*

OAG – Request for Procedural Guidance ..... Jan. 20, 2015  
Department - Comments ..... Feb. 2, 2015  
Xcel – Comments ..... Feb. 3, 2015  
Department – Reply Comments ..... Feb. 10, 2015  
OAG – Reply Comments ..... Feb. 10, 2015

*(Filings submitted after the Commission’s March 26 meeting & deliberations)*

Xcel – Letter ..... Jun. 3, 2015  
Department – Comments ..... Jun. 4, 2015  
Xcel – Compliance Filing ..... Jun. 11, 2015  
OAG – Reply Comments ..... Jun. 30, 2015

2014 Property Taxes

Xcel – Compliance – Final 2014 Property Taxes ..... Jun. 30, 2015

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

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July 1, 2015

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## Reconsideration Items

### Nuclear Refueling Outage

#### OAG - Reconsideration Petition

In its May 28, 2015 Petition for Reconsideration, the OAG requested that the Commission reconsider its decisions to permit Xcel to over-recover nuclear refueling outage (“NRO”) expenses in 2015 and to permit Xcel to earn a full return on NRO expenses.

The OAG stated that the Commission’s decision to set Xcel’s 2015 step year NRO recovery at its 2014 cost level results in a \$5.5 million over-recovery for the Company which results in inaccurate ratemaking, is fundamentally unfair to ratepayers, and is premised on a flawed analysis that is inconsistent with the Commission’s past decisions. The OAG added that, to promote ratepayer fairness and accurate cost recovery, the Commission should modify its Order to require Xcel to reduce its 2015 NRO costs by \$5.5 million.

The OAG pointed out that the decision in this case directly conflicts with the Commission’s justification for adopting the deferral and amortization method in the first place. By refusing to adjust Xcel’s 2015 step-year to reflect the Company’s actual NRO costs, the Commission is not promoting several of its stated goals for using deferral-and amortization accounting: accuracy in cost recovery, fairness between the company and ratepayers, and “matching” the timing of cost recovery with the timing of when the expenses were incurred. The OAG characterized this treatment as inequitable for ratepayers.

The OAG also argued that the Commission’s decision was based on a flawed reading of the Multi-Year Rate Plan Order which allows Xcel’s step year to be adjusted to reflect *both* “costs related to specific, clearly identified capital projects” and “appropriate non-capital costs.” The OAG continued by saying that the Commission’s Order provides no analysis of whether NRO expenses are “appropriate non-capital costs” and fails to discuss any of the unique characteristics of NRO expenses. The only discussion in the Commission’s Order is the general and unsupported claim that NRO expenses are “among the costs for which step year adjustments should only be accomplished in conjunction with a fuller consideration of all rising and falling non-capital costs.”

The OAG explained that NRO expenses are so fundamentally different from O&M costs that Xcel is permitted to use deferral-and-amortization accounting and to earn a return on these costs. The OAG questioned what expenses would ever qualify as “appropriate non-capital costs” if expenses that are permitted to earn a return are not sufficiently “appropriate” to be updated in a test year.

The OAG added that the Commission’s claim that NRO costs are not “transformed” into capital costs by changing their accounting treatment conflicts with previous statements the Commission made when authorizing the deferral-and-amortization accounting method:

Under deferral-and-amortization accounting procedures, *the costs would be capitalized, i.e. placed in rate base*, and amortized over periods between refueling; the Company would earn its rate of return on the amount of those deferred costs as well as recovering the cost.<sup>1</sup>

The Commission's current determination that NRO expenses are not capital costs is clearly inconsistent with its previous statement that the costs are "capitalized" and "placed in rate base." Now that classifying the deferred-and-amortized NRO costs as capital costs would result in a lower 2015 recovery, the Commission has reversed course without explanation and concluded that they remain non-capital costs. The OAG added that the only consistent factor in the Commission's conflicting decisions is that the Company has benefited in both instances of the Commission's contradictory actions and concluded that failing to make this adjustment will result in an over-recovery of \$5.5 million.

In addition to the recovery amount, the OAG asked that the Commission reconsider its decision to allow Xcel to recover its full rate-of-return on NRO expenses that are deferred for a period of between 18 and 24 months. The OAG argued that the evidence presented in this case demonstrates that the Commission's past decisions are wrong and fundamentally unfair to ratepayers. The OAG added that, if the Commission had reviewed the "side-by-side comparison of the rate impact of both deferral-and-amortization and direct-expense accounting" it indicated would take place<sup>2</sup>, it would be apparent that the deferral and amortization method has caused ratepayers to pay \$16.7 million more in rates than they would have under the previous method.

The OAG concluded that the Commission's statement that the deferral and amortization method will result in "equitable treatment" is factually untrue and; therefore, the Commission should reconsider the decision to allow Xcel to earn a return on its deferred-and-amortized NRO expenses.

### **Xcel - Response**

In its June 8, 2015 answer, Xcel stated that the OAG has not raised any new arguments that would merit reconsideration; consequently, their Petition should be denied.

Xcel stated that the OAG's arguments were the subject of detailed testimony and were fully vetted in these proceedings. Subsequently, both the ALJ and the Commission appropriately determined that the long-standing approach to nuclear refueling outage costs was not only *consistent with* the MYRP Order but also *required by* the order's limitation on updating non-capital costs.

### **Staff Analysis**

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<sup>1</sup> Findings of Fact, Conclusions of Law, and Order, In the Matter of the Application of Northern States Power Company d/b/a Xcel Energy for Authority to Increase Rates for Electric Service in Minnesota, Docket No. E-002/GR-08-1065, page 30 (October 23, 2009).

<sup>2</sup> Ibid, pages 32-33

Staff agrees with Xcel that the OAG has not raised any new arguments and that the Commission has fully considered this item already.

(In deliberations, Commissioner Lange moved that the Commission determine that no adjustment is required in the 2015 step for the \$5.5 million reduction in nuclear refueling outage cost in 2015. The motion passed 4 – 0.)

### **Decision Alternatives**

1. Modify the Order and require Xcel to reduce its 2015 Nuclear Refueling Outage Expense by \$5.5 million downward adjustment. (OAG)
2. Deny the OAG's Reconsideration Petition regarding the 2015 Nuclear Refueling Outage Expense. (Xcel)
3. Take no action.

## **Passage of Time Adjustments**

### **Department of Commerce - Reconsideration Request**

In its May 28, 2015 Petition for Reconsideration and Clarification, the Department requested reconsideration of its \$17.53 million Passage of Time adjustment. The Department argued that the “newness” of a multi-year rate case when combined with Minnesota statutes<sup>3</sup> that state that the burden of proof to demonstrate that the proposed rates are reasonable “is on the public utility” justifies reconsideration of this issue. The Department pointed out that the ALJ’s analysis agreed that the Multi-Year Rate Plan (“MYRP”) Order requires the Commission to consider both depreciation expense and changes in rate base in determining whether the MYRP will result in just and reasonable rates. The Department also added that the ALJ concluded that, when the additional passage of time components are considered, they more than offset the passage of time reductions recommended by the Department and; therefore, concluded that no downward adjustment was necessary.

The Department stated that it would not object to the Commission allowing Xcel’s 2015 Step to include annualization of any 2014 non-Step projects that are not already reflected in the 2015 Step; however, the amount is expected to be small and is not provided in the record. The Department, however, remains concerned that Xcel’s \$18.479 million increase figure is not appropriate, since it is based on a 2015 revenue requirement not actually requested by the Company.

The Department goes on to fault Xcel for causing confusion in this record and goes on to provide several such examples.<sup>4</sup> The Department reiterated its concern regarding the passage-of-time

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<sup>3</sup> Minn. Stat. § 216B.16

<sup>4</sup> Since examples used by the DOC have already been considered in this case, they are not repeated here.

issue, especially since Xcel used their forecasted 2015 revenue requirement (instead of its 2015 Step revenue requirement) to calculate their passage of time adjustment of an increase of \$18.479 million rather than a decrease of \$17.53 million.

The Department concluded that the Company should be allowed to recover in the 2015 Step incremental depreciation and rate base increases and decreases tied to the 2014 revenue requirement and 2015 Step. However, the Company should not be allowed to recover a 2015 forecasted revenue requirement the Company explicitly excluded from its request in its initial case.

The Department also pointed out that the Company had an opportunity to develop this issue further at the contested case hearing, but chose not to do so. The Company began cross examining the Department witness about the Department's passage of time calculations, but when the Department witness asked for clarification about the calculations and columns represented in the document that Xcel referenced, the Company chose to withhold further questions to develop the record on this issue. Lack of record development was of Xcel's own making.

The Department closed by urging the Commission to consider requiring the following in future rate cases regarding the issue of the passage of time:

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

### **Xcel - Response**

In its June 8, 2015 answer, Xcel stated that the Department has not raised any new arguments that would merit reconsideration; consequently, their Petition should be denied. The Company argued that, despite the Department's position having evolved throughout the case, their position on reconsideration is essentially the same as its initial position.

Regarding the Department's continued questioning of the Company's calculation of \$18.479 million depreciation expense increase, the Company pointed out that the record was sufficiently clear that the ALJ agreed.<sup>5</sup>

### **Staff Analysis**

Staff agrees with the Department that, if the Commission required more explicit explanations and calculations, better record development would result in future multi-year rate cases. However,

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<sup>5</sup> ALJ report, page 50

staff considers essentially all of the Department's arguments on this subject to be a repeat of information on the record that has already been considered. Staff does not find that the Department's position supports a decision that the Commission's Order was unlawful or unreasonable.

(In deliberations on March 26, 2015, Commissioner Lange moved that the Commission find that no 2015 Step Year adjustments for Depreciation, Plant Retirements, and Passage of Time are required. Commissioner Lange withdrew her motion. Chair Heydinger then moved that the Commission: find that no 2015 Step Year adjustments for Depreciation and Passage of Time are required, and that a 2015 Step Year reduction of \$535,552 is required to reflect 2015 capital retirements of transmission and distribution facilities. The motion passed 4 – 0.)

### **Decision Alternatives**

#### Adjustment

1. Grant the Department's request and modify the Order to allow for the passage of time and a \$17.53 million downward adjustment. (DOC)
2. Deny the Department's Petition to allow for the passage of time adjustment. (Xcel)
3. Take no action

#### Future multiyear rate case filing requirements

4. Require the following in future multi-year rate cases regarding the issue of the passage of time:
  - A directive that 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
  - A requirement for clear calculations, including narrative, detailed calculations, well-labeled information, and support for how calculations tie out to rate case requirement requested by the Company.
5. Take no action

## **Prairie Island Debt-Only Return**

### **OAG - Reconsideration Petition**

In its May 28, 2015 Petition for Reconsideration, the OAG argued that the Commission should reconsider its decision to allow a return (debt-only) on the canceled Prairie Island Uprate project.



The OAG's basis is that the decision departs from the Commission's precedent without justification, violates the fundamental principles of ratemaking, and is unreasonable. Furthermore, a significant portion of those costs are AFUDC accrued in violation of FERC Uniform System of Accounts and should be disallowed.

The OAG pointed out, and provided examples<sup>6</sup>, that the Commission has repeatedly made clear that the proper balance in the context of cancelled projects is to permit shareholders to recover the costs of the project, but to deny a return. The OAG noted nothing in this case should lead the Commission to discard decades of precedent. Furthermore, this precedent already rewards industry shareholders by allowing them to recover their costs - investors in every other industry face the same risk of project cancellation as utility investors, but have no expectation of getting their investment back if cancellation ultimately occurs. The OAG argued that Xcel's shareholders, through the company's weighted cost of capital, are *already* compensated for the risk of investment loss as a result of project cancellation. Investors are well aware that utility projects, like any investment project, may face challenges and ultimately be cancelled. That understanding is incorporated in the market's expectations for Xcel, and is fully reflected in Xcel's authorized rate of return.

The OAG also explained that, in the past, the Minnesota Court of Appeals has told the Commission that it "must either conform to its prior norms and decisions or explain the reasons for its departure from such precedent." The Commission's suggestion that Xcel should be permitted a debt-only return because it acted prudently by informing the Commission that the project was facing challenges, and ultimately cancelling the project, is flawed and dangerous. Since Xcel *has* to inform the Commission when projects are not proceeding as expected, the fact that it followed the rules should not lead the Commission to abandon its precedent, change the outcome of its decision, or reward Xcel's shareholders.

As it argued throughout the case, the OAG continued to take exception to allowing Xcel to recover \$12.8 million in AFUDC. The OAG argued that accrued AFUDC was in violation of FERC's rules and, by failing to take action to correct that violation, the Commission's Order has both disregarded its own rules and encouraged rule-breaking in the future. Since Minnesota utilities are bound by the USOA, the Commission must enforce its rule mandating that utilities use the USOA, including the rules for recording AFUDC. The OAG argued that the Commission *does not* have discretion to apply the USOA in some situations, and disregard it in others. To do so would violate the Commission's own rules and it would be unreasonable.

### **Xcel - Response**

In its June 8, 2015 answer, Xcel stated that the OAG has not raised any new arguments that would merit reconsideration; consequently, their Petition should be denied.

Xcel pointed out that it is important to recall that the Company's recovery of the cost of debt is a resolution that balances the facts of this proceeding and the Company's prudent investment with the interest of customers, and consistent with Commission precedent on this issue. Furthermore,

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<sup>6</sup> Cited Case include Dockets #10-276, 876-380, 05-1428 and 10-239

as shown in the table below, the cost of debt recovery over a 20+ year amortization period offers a substantially reduced impact to customers:

Recovery Proposal (dollars in thousands)	Associated 2014 Revenue Requirement
6-year amortization, no return	\$9,856
12-year amortization with return	\$8,562
12- year amortization, no return	\$4,928
RESOLUTION: 20+ year amortization, recovery of weighted cost of debt.	\$3,666

Xcel stated that, in arguing against recovery of the Company's cost of debt, the OAG conflates recovery – an actual expense – with a “reward” to shareholders. Xcel also added that the OAG's use of a law review article for the proposition that FERC typically does not permit recovery of a full rate of return on cancelled projects fails to recognize that cost of debt recovery is not equivalent to full rate of return recovery. Furthermore, the article's authors do not end the discussion of FERC processes by simply noting that customers pay for the investment and investors do not earn a return; rather, they note that:

The amortization period [for cancelled projects] is accelerated; typically five years, so as to reduce the carrying charges borne by investors. Finally, FERC has resolved other ratemaking issues, such as the tax consequences and the treatment of AFUDC, in favor of investors.<sup>7</sup>

Since, where FERC does not permit a return, it typically allows a shorter amortization period than will be applied to Prairie Island, Xcel concluded that a 20+ year amortization period supports cost of debt recovery.

Regarding AFUDC, Xcel expressed concerns that the OAG's arguments mischaracterize both the USoA requirements and the record with respect to the timing and extent of the Company's re-evaluation and ultimately cancellation of the Prairie Island EPU project. The OAG incorrectly claims that the USoA prohibits the Company from recovering any AFUDC for a cancelled project; however, the express language of the USoA provides that “[n]o allowance for funds used during construction charges shall be included in these accounts *upon expenditures for construction projects which have been abandoned*. Xcel stated it complied with this requirement and accrued AFUDC at the appropriate time. Furthermore, the Company's approach was thoroughly reviewed in testimony, approved by the Company's independent auditors, vetted by the ALJ, and appropriately decided by the Commission based on the supported facts in the record.

### Staff Analysis

<sup>7</sup> Rodney A. Wilson, *Ratemaking Treatment of Abandoned Generating Plant Losses*, 8 Wm. Mitchell L. Rev. 343, 351–52 (1982).

Staff believes the Commission carefully reviewed this issue and that, by extending the amortization period to 20+ years while allowing cost of debt recovery, including AFUDC, it has balanced both the ratepayers' and the Company's interests. Staff sees no reason for reconsideration of this issue.

(In deliberations on March 26, 2015, Commissioner Tuma moved that the Commission allow the Company to recover the \$78.9 million cost less \$10.1 million previously written off and less \$9.2 million of AFUDC over the 20.3 year life of the plant with no return. Commissioner Tuma withdrew his motion. Commissioner Wergin then moved that the Commission allow the Company to recover the \$78.9 million cost over the 20.3 year life of the plant with a debt return of 2.24%. The motion passed 3 – 1. Commissioner Tuma voted no.)

### **Decision Alternatives**

1. Modify the Order and allow Xcel to recover its Prairie Island EPU costs without AFUDC and without any return. (OAG)
2. Deny the OAG's Reconsideration Petition. (Xcel)
3. Take no action.

## Clarification Items

### Monticello Depreciation

#### Department of Commerce - Clarification Request

In its May 28, 2015 Petition for Reconsideration and Clarification, the Department asked for clarification regarding Xcel's handling of the Monticello plant's depreciation. The Department states that the reason for its petition is that in the Company's draft Compliance Filing – Preliminary Schedules, Xcel's incorrect calculation effectively would, in 2015, award the Company \$2.1 million more than the Commission appears to have allowed Xcel to recover from ratepayers.

The Department explained that Xcel's adjustment reflects no return *on a lower average rate base amount* due to allowing accumulated depreciation/depreciation reserve to be allocated to the no-return portion of the plant for past years (2009 to 2014). The Company's adjustment would reduce the rate base amount for the Monticello no-return portion of plant by incorrectly assigning accumulated depreciation from past years and, thus, incorrectly reducing the amount of the Commission's disallowance

Based on its understanding of the Commission's Monticello Order, the Department vigorously opposes Xcel's proration. Specifically, the Department recommends that all past depreciation expense recorded in accumulated depreciation/depreciation reserve for 2009 to 2014 be assigned to the portion of the Monticello plant for which Xcel *is allowed a return*, rather than be prorated between plant that receives a return and plant that receives no return (as proposed by Xcel).

#### Xcel - Response

On June 8, 2015, Xcel answered the Department and framed the issue as being whether the Company should account for depreciation according to standard practice or should apply depreciation in the new manner the Department proposes. The Company submitted that its accounting for Program depreciation satisfies long-standing ratemaking procedures and is the appropriate way to implement all aspects of the Commission's order in the Monticello prudence investigation.

Xcel dismissed the Department's suggestion that its proposal is necessary to ensure the Company does not earn a return on a greater portion of the assets than the Commission permitted by stating that the Commission allowed full recovery of Monticello LCM/EPU Program costs, and that a full "return of" costs, by definition, represents depreciation.

Xcel pointed out that, when it applies the Commission's order to this multi-year capital project placed in service over several years, and depreciated in staged intervals going back to 2008, its approach is reasonable and consistent with the Commission's policy determinations. Xcel added that, by failing to account for the differences between earning a return and recovering

depreciation, the Department's approach deviates from standard ratemaking principles and would further harm the Company.

Xcel added that the Department's theory both inequitably penalizes the Company and is inconsistent with the Commission's historic interest in accounting for depreciation consistent with the appropriate percentage of plant in service. Because the Department's proposal accounts for accumulated depreciation based on whether Program costs will earn a return, it disconnects the Monticello asset from its associated depreciation. Xcel also argued that, perhaps even more importantly, the Department's proposal would result in a duplicate impact to the Company because the Department both fails to account for the depreciation previously applied but not collected from customers (as well as the return on that portion that was not recoverable) and asks the Company to apply prior depreciation solely to the amounts that will earn a return. By treating the entire Program amount that will not earn a return as being placed in service on a single date in 2015, the Department proposes to reduce the Company's recovery of Monticello costs. This would be in addition to the impact to recovery of past used and useful determinations, the LCM/EPU split determination, and the outcome of the prudence investigation. This effectively constitutes double counting, and would be unjust and unreasonable.

### **Staff Analysis**

Staff disagrees with the Department's interpretation of the Monticello Order. Although the Order does not specify the prior depreciation's handling, Staff believes that the Order's "spirit" presumed a common sense approach that would allocate depreciation on a pro-rated basis.

In light of Xcel and Department's differing interpretations and to avoid any such possible future reoccurrences, the Commission may want to make a clarification stating that *all* (past, present and future) depreciation pertaining to Monticello 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 allowed to earn a return.

### **Decision Alternatives**

1. Clarify that all past depreciation expense recorded in accumulated depreciation/depreciation reserve for 2009 to 2014 be assigned to the portion of the Monticello plant for which Xcel *is allowed a return*. (DOC)
2. Clarify that *all* (past, present and future) depreciation expense recorded in accumulated depreciation/depreciation reserve be allocated on a pro-rated basis between the \$415 million that Xcel is allowed to earn a return and the \$333 million that it is not. (Xcel)
3. Take no action.

## **Monticello EPU**

## **Xcel Energy - Clarification Request**

In its May 28, 2015 Petition for Reconsideration, the Xcel requested clarification that the Monticello Extended Power Uprate (EPU) Project is used and useful as of January 1, 2015 and is appropriately included in 2015 rate base.

Xcel pointed out that the Order provides that “if the EPU is not in service by January 1, 2015, the Company should refund any excess amounts collected in rates through the refund mechanism for the multiyear rate plan.”<sup>8</sup>

Xcel pointed out that the Order states that “the Company still did not have the NRC’s permission to operate Monticello at the full 671 MW uprate level”<sup>9</sup>. The Company understood this finding to mean that, once the Company no longer requires NRC review or approval to continue the ascension of the Monticello plant to full EPU levels, the Monticello EPU will be considered in service for rate making purposes.

Xcel noted that Monticello has been operating at uprated conditions (generally between 640 MW and 656 MW) from December 2014 until the current Spring Outage that began in April 2015 and added that it has successfully passed all data collection requirements of its Operating License without issue; therefore it does not require any additional NRC approvals or authorizations to operate the plant at the full uprated levels. The Company affirmed that, in other words, it has full authority from the NRC to operate the Monticello plant at 671 MW should operational conditions warrant. Consequently, Xcel concluded that, under the Commission’s Order, the Monticello EPU is in service and no refund is due.

Xcel did recognize that, as a result of a mechanical issue unrelated to the EPU Project or NRC restrictions, Monticello has not yet operated at 671 MW; however, based on the ALJ’s finding<sup>10</sup>, achieving 671 MW does not mean that the Monticello EPU is not in service. The mechanical issue was with turbine controls and occurred while ascending the Monticello plant to 671 MW. Instead of taking an unforced outage to fix the issue, Xcel chose to address this issue during its Spring 2015 planned outage. Once the planned outage is complete, there is some concern that water temperatures in the Mississippi River could be too high to operate the plant at 671 MW, which could further delay achieving the 671 MW output level for reasons beyond the Company’s control.

## **Department of Commerce - Response**

On June 8, 2015, the Department replied to Xcel’s request and stated that the Company’s request should be denied because:

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<sup>8</sup> Order, page 15.

<sup>9</sup> Ibid, pages 14-15.

<sup>10</sup> ALJ Report, Finding 89.

1. The Commission's Order is clear and reasonable as to the Commission's ratemaking treatment of the Monticello EPU for 2015.
2. Xcel's new claims regarding NRC requirements are not supported by the record and, in fact, conflict with evidence provided by Xcel.
3. Regarding rate treatment for 2015, Xcel misinterprets the ALJ Report's findings and, therefore, misstates the Commission's May 8, 2015 Rate Case Order regarding its 2015 ratemaking treatment of the Monticello EPU.
4. In light of the Commission's adoption of the Multi-Year Refund Rate Plan, Xcel's Rehearing Request, which depends in part on whether the Monticello EPU is fully operating at the 671 MW by the end of the 2015 Step Year, is premature.

In disagreeing with Xcel's interpretation, the Department pointed out that Xcel acknowledged that the Monticello EPU has not yet operated – even for testing purposes – at its full capacity for 2015. The Company selectively quoted from the Commission's Order and the ALJ Report, and then incorrectly concluded that the Commission determined that Monticello EPU is in-service as of January 1, 2015. Based on Xcel's assurances that it would demonstrate that Monticello EPU would be in full operation, the Department expected the Monticello EPU to be used and useful as of 2015, but that Xcel would need to provide a refund if it failed to do so, under the terms of the capital true-up in this proceeding. The Commission's decision assumed the same, with a refund mechanism in the event that the Monticello EPU is not used and useful for ratemaking purposes by January 1, 2015. Xcel has yet to operate Monticello at the 671 MW level.

Moreover, in stating that Monticello plant can be considered to be used and useful even though “the Monticello Plant has not yet operated at 671 MW”, the Company relied on cases from North Carolina, Indiana and Colorado for this proposition. The Department added that the Commission's appropriate reliance on Minn. Stat. § 216B.16, subd. 6 together with the discussion provided in the Commission's Order on pages 14-15 support the reasonable conclusion that the Commission rejected this novel legal position proposed by Xcel.

The Department also pointed out that Xcel's claim that it is no longer required by the NRC to obtain NRC approval to ascend the Monticello EPU plant to the 671 MW level or to operate at that full capacity level on a sustained basis is new and unsubstantiated by the record. Furthermore, the DOC provided excerpts Xcel's response to IR #115<sup>11</sup> which show that the Company's clarification request is inconsistent with its IR response. Additionally, Department added that, in response to Commission questioning at the March 8, 2015, rate case oral arguments, Xcel acknowledged that the Monticello EPU had not reached its full 671 MW operating level.

The Department noted it understood the ALJ Report<sup>12</sup> to mean that since ratepayers still cannot receive the benefit of the additional 71 MW of power for the EPU, ratepayers should not pay for

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<sup>11</sup> Department of Commerce, Campbell Direct, pages 51-55.

<sup>12</sup> ALJ Report, Finding 88-89.

the costs of the Monticello EPU. Additionally, the Department understood the ALJ Report to mean that, while the Company should not be required to keep Monticello at 671 MW continuously, the Company does need to receive NRC approval to operate at the 671 MW level and at least to reach the 671 MW operating level in practice.

Since the Department does not consider Monticello to be used and useful as of January 1, 2015, it continues to recommend that the best place to evaluate whether Monticello EPU is in-service and used and useful is in the refund mechanism for the multiyear rate plan. The Department can then evaluate after year-end 2015 if the Monticello plant (with the EPU) has reached the 671 MW level and this has received NRC approval to operate at that level.

### **Staff Analysis**

Staff concurs with the Department's position and adds that on May 8, 2014, Xcel representatives, Department Staff and PUC Staff had a meeting at the Department's office<sup>13</sup> and, at that time, Xcel confirmed that the EPU ascension process was *almost* complete. Furthermore, Staff is confused by the Company's claim that it no longer needs NRC approval because at the May 8 meeting, Xcel mentioned that it was two "steps" away from completing ascension and each step took ten to fifteen days to complete, in part because the NRC needed to review Monticello's data. Staff believes that Xcel's representations at the meeting are inconsistent with the information provided in its clarification request. At the time of writing these Briefing Papers and to the best of Staff's knowledge, the Company has not confirmed the date when final ascension was completed.

If the Commission agrees that Monticello EPU is not considered used and useful as of January 1, 2015, Staff thinks that the Commission may want to consider instructing Xcel to make a compliance filing that provides the Commission with the date Monticello completed its full ascension to 671 MW.

### **Decision Alternatives**

1. Clarify that the Monticello EPU was considered used and useful as of January 1, 2015 and allow Xcel to include EPU costs in rate base as of that date. (Xcel)
2. Clarify that the Monticello EPU was not considered used and useful as of January 1, 2015. (DOC, Staff)
3. Instruct Xcel to make a compliance filing that provides the Commission with the date Monticello completed its full ascension to 671 MW. (Staff)

## **Multi-Year Rate Plan – Application on Step-Year Cost of Capital**

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<sup>13</sup> See PUC ex-parte May 14, 2015 filing on Docket #13-754.



## Xcel Energy - Clarification Request

In its May 28, 2015 Petition for Reconsideration, Xcel sought clarification regarding the application of the 2015 step-year cost of capital and whether it applies to the full rate base or strictly to step-year capital projects. Xcel asserted that applying the updated cost of capital to the entire 2015 rate base was a resolved issue between the Company and the Department; however, since the Commission's Order reflects the latter approach, its revenue requirement is lower than it should be.

Xcel pointed out that to calculate the revenue deficiency corresponding to the 2015 rate base, the Company initially applied a single cost of debt to rate base for 2014 and 2015 and added that, in response to Department witness Dr. Eilon Amit's request in Direct Testimony, it updated the separate costs of debt for 2014 and 2015 in Mr. George Tyson's Rebuttal. Dr. Amit subsequently accepted these updated costs of debt, which were incorporated into Department witness Mr. Dale Lusti's Surrebuttal and evidentiary hearing cost of service schedules which illustrate that he applied the updated cost of capital to the entire 2014 rate base plus 2015 Step.

To illustrate the discrepancies, Xcel provided the following table:

	Apply cost of debt to entire rate base (\$'000)		Apply cost of debt to 2015 Step items only (\$'000)	
	2014 Test Year	2015 Step	2014 Test Year	2015 Step
Average Rate Base	\$6,493,649	\$584,573	\$6,493,649	\$584,580
Rate of Return	7.34%	7.37%	7.34%	7.37%
Required Operating Income	\$476,634	\$45,031	\$476,634	\$43,084
Operating Income before AFUDC	\$407,232	(\$13,470)	\$407,232	(\$14,275)
AFUDC	\$34,864	(\$5,509)	\$34,864	(\$5,509)
Total Operating Income	\$442,096	(\$18,979)	\$442,096	(\$19,785)
Income Deficiency	\$34,538	\$64,010	\$34,538	\$62,868
Gross Revenue Conversion Factor	1.705611	1.705611	1.705611	1.705611
Gross Revenue Deficiency	\$58,908	\$109,176	\$58,908	\$107,229

Based on this information, Xcel proposed that Order Point 1 be revised as follows:

Xcel's Electric Utility is entitled to increase Minnesota jurisdictional revenues by \$58,908,000 to produce jurisdictional total retail-related revenue of \$2,885,909,000 for the test year ending December 31, 2014 and to produce jurisdictional total retail-related revenue of ~~\$2,992,385,000~~ \$2,995,708,000 for the 2015 Step.

## Department of Commerce - Response

In its June 8, 2015 reply, the Department stated that Xcel implied that, when applying the 2015 rate of return to the total 2015 rate base, it was following the Department's recommendation. The Department clarified that Dr. Amit's request that the Company update its long-term debt and short-term debt components of capital structure was unrelated to Xcel's objection that it was not appropriate for the Commission to apply the 2015 rate of return only to the 2015 Step projects.

The Department pointed out that Xcel's argument that this was a resolved issue between the Company and the Department is incorrect because this issue had not been debated. Although the Department's revenue deficiency calculations in direct, surrebuttal and evidentiary hearing positions did apply the 2015 rate of return to the entire rate base for 2015, the Department discussed how the Commission's decision regarding the cost of capital in 2015 could be viewed as being related to the Department's "Passage of Time" adjustment, which the Commission did not approve, just as it did not approve Xcel's request to apply the cost of capital to all of 2015 rate base.

The Department concluded by stating that, if the Commission reconsiders its position with regard to the Passage of Time issue, and approves the Department's recommended Passage of Time adjustment, then the Department would agree with Xcel that the Commission should apply the approved 2015 rate of return to the entire 2015 rate base. However, if the Commission does not reconsider the Passage of Time issue, it similarly should not reconsider its decision regarding the application of the 2015 rate of return to only the 2015 Step projects.

### **Xcel - Response**

In its June 8, 2015 reply, Xcel stated that it does not believe the Cost of Capital issue is related to the Passage of Time issue and expressed concerns regarding the Department's perception that the Department's position is contrary to Xcel's position throughout these proceedings.

Xcel argued that, for rates to be just and reasonable, the Company must have a reasonable opportunity to earn its authorized rate of return on rate base. The Department's passage of time adjustment is used to determine on what capital the Company can earn a return; however, proper application of the cost of debt is critical to providing the Company the necessary opportunity to earn its actual costs of incurring debt and ultimately the Commission's authorized overall rate of return.

### **Staff Analysis**

Staff disagrees with the Company's interpretation on this issue. While Staff acknowledges that the Multi-Year Rate Order does not specifically contemplate how to handle this particular issue, Staff's points out that only capital-related investment changes should be included in a Step Year; therefore, the Step-Year's cost of capital should only apply to Step-Year capital projects.

In addition, Staff considers Xcel's position to be single-item rate making. Additionally, since the Multi-Year Rate Order did not contemplate this issue, Staff suggests the Commission resolve this dispute in the ratepayer's favor.

Staff agrees with the Department that Xcel's position is essentially a Passage of Time Adjustment, which the Commission denied; however, it does not agree with the Department's position that the Commission's clarification decision has to be tied to the Passage of Time Adjustment. Staff believes the two issues can be decided independently of one another if that is what the Commission decides it wants to do.

Since this is the first ever multi-year rate case, and to avoid any confusion regarding this issue in future multi-year rate cases, the Commission may want to clarify whether changes in the step-year cost of capital apply to *total* rate base or to step projects only.

Regardless of its position, Staff points out that there is an error in the Order's 2015 financial schedules. Therefore, should the Commission agree with Staff's interpretation then the correct revenue deficiency for the 2015 Step-Year should be, as shown in the table above, \$107,229,000. Thus, the Commission may want to revise Order Point 1 as follows:

Xcel's Electric Utility is entitled to increase Minnesota jurisdictional revenues by \$58,908,000 to produce jurisdictional total retail-related revenue of \$2,885,909,000 for the test year ending December 31, 2014 and to produce jurisdictional total retail-related revenue of ~~\$2,992,385,000~~ \$2,993,760,000 for the 2015 Step.

### **Decision Alternatives**

1. Clarify that the 2015 Step-Year cost of capital should apply to the entire rate base which would produce retail-related revenues of \$2,995,708,000 for the 2015 Step. (Xcel, DOC – if Passage of Time Adjustment is reconsidered and approved)
2. Clarify that the 2015 Step-Year cost of capital should only apply to the 2015 Step capital projects which would produce retail-related revenues of \$2,993,760,000 for the 2015 Step. (DOC – if Passage of Time Adjustment is not reconsidered and approved, Staff)
3. Clarify that any changes in future Step-Year's cost of capital will only apply to step projects. (Staff)
4. Clarify that any changes in future Step-Year's cost of capital will be apply to *total* rate base. (Staff alternative)

## **Other Financial Items**

### **Sherco 3 Insurance**

#### **Xcel Energy - Compliance Filing**

On March 31, 2015, Xcel filed its final compliance report on Sherco 3. The report's insurance recovery section indicated that Xcel's insurance proceeds were higher than originally anticipated. Specific amounts related to this subject are Trade Secret protected; therefore, they are not quantified here.

On April 24, 2015 Xcel filed preliminary compliance schedules in this case.

### **OAG - Letter**

On May 7, 2015, the OAG filed a letter alerting the Commission that, at the time, it was unclear whether it was appropriate to include all costs contained in Xcel's 2014 Capital True-Up schedule. The OAG stated that, instead of refunding ratepayers, Xcel had incorporated the extra proceeds in the True-Up schedule instead and, by doing so, it appears that some repair costs reimbursed by insurance will also be recovered from ratepayers. The OAG pointed out that the Commission's Order in Xcel's 2012 rate case<sup>14</sup> stated that:

Xcel agreed to provide a full accounting of the repair costs and insurance recovery in its next case *to ensure that no repair costs reimbursed by insurance are recovered from ratepayers.*

Based on that information, the OAG questioned why Xcel included the insurance surplus in the Capital True-Up which, contrary to Commission Order, has the effect of allowing Xcel to retain a significant double-recovery from ratepayers. Finally, the OAG indicated that it had requested additional information from Xcel and that it would file additional comments by May 24, 2015.

### **OAG - Comments**

On May 22, 2015, the OAG filed comments confirming that Xcel had included the insurance surplus in its 2014 Capital True-Up. Based on that information, the OAG requested that the Commission order Xcel to remove the proceeds of its insurance recovery from the 2014 Capital True-Up calculation and credit ratepayers through either a reduction in test-year rate base or a direct refund.

The OAG pointed out that Xcel's methodology of comparing projected insurance proceeds' with actual insurance proceeds' revenue requirements is not consistent with the 2012 agreement. The OAG added that the Capital True-Up process resulted from an agreement between the Company and the DOC in Xcel's 2013 rate case and no such process was mentioned in Xcel's 2012 rate case or in the four 2014 insurance recovery updates. Rather, the first - and only - mention of Xcel's plan to calculate a ratepayer refund in this manner was the single sentence included in the company's March 31, 2015 insurance report that said "[w]e will include [the insurance savings] in our upcoming capital true up in the 2013 Minnesota electric rate case." Since the rest of the Company's March 31, 2015 insurance report was nearly identical to the language in its four previous insurance reports, this single-sentence "disclosure" could very well have gone entirely unnoticed. For that reason, the OAG expressed its concern that Xcel did not openly communicate

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<sup>14</sup> Docket #12-961

its plans and appears to have hidden its intentions by burying them in a single sentence of a largely boiler-plate compliance filing. Regardless, the OAG stated that it does not agree that the Capital True-Up process is the appropriate forum to resolve the Sherco 3 costs.

The OAG characterized Xcel's analysis as misplaced and flawed and pointed out that Xcel's attempt to exploit the "favorable" timing of its insurance payments to recover the same amounts from ratepayers should be rejected.

### **Department Of Commerce - Comments**

On May 27, 2015 the Department filed comments agreeing with the OAG's conclusions. The DOC explained that, under Xcel's proposal, Sherco 3 rebuild costs would be included in Xcel's rate base and ratepayers would not only pay for those costs but also pay the Company for a return on the assets, depreciation expense, insurance, etc. without receiving the corresponding benefit of insurance proceeds unless that amount is returned to ratepayers. The Department concluded that the best way to do so is to include the insurance proceeds as an offset to Xcel's rate base in this proceeding.

### **Xcel Energy - Reply**

On its June 8, 2015 reply, Xcel stated its proposed treatment of the larger than expected insurance reimbursement is consistent with its commitment with respect to insurance recovery of the Sherco 3 Restoration Project as well as the operation of the Capital True-Up agreed to by the Department and adopted by the Commission in this case.

Xcel explained that, in its initial Compliance Filing, its calculation of the Capital True-Up amounts related to Sherco 3 simply applied traditional ratemaking methods to the capital expended and the insurance recovery received for Sherco 3. In response to the OAG's discovery, the Company recognized the timing impacts of the larger than expected insurance recovery for Sherco 3 by including 2015 insurance recovery amounts in their 2014 true-up calculation. However, because Xcel's capital expenditures in 2013 were larger than forecasted in Xcel's initial case, the 2014 revenue requirement for Sherco 3 is larger than forecasted notwithstanding the larger than expected insurance recovery. Xcel characterized OAG and Department comments as reflecting frustration with the effects of the rate setting process on the capital costs of Sherco 3, net of all insurance proceeds, and nothing more.

Consistent with past practice, Xcel recognized Sherco 3 capital expenditures in the month they were made and then recognized the insurance reimbursements when they were received. By developing a mechanism under which insurers helped cash flow restoration activities, Xcel was able to recognize insurance reimbursements closer to when restoration funds were expended.

Xcel further explained that, in an effort to restore Unit 3 to service as quickly as possible, the Company had expended more capital in 2013 than originally forecasted and more than originally cash flowed by its insurers. This led to a larger beginning of year balance when calculating 2014 rate base and associated 2014 depreciation expense for Sherco 3 than originally forecasted. This

accelerated spending was higher than the larger than expected insurance reimbursement for the Sherco 3 Restoration. Consequently, the 2014 revenue requirement was higher than initially forecasted, even when all 2014 and 2015 insurance reimbursements are accounted for in this calculation.

This result is due to accelerated spending in 2013 and the timing of actual insurance reimbursements; however, due to the Commission's established beginning of year/end of year plant balance averaging method to calculate rate base in a test year, the accelerated 2013 expenditures result in a higher 2014 beginning of year balance against which Xcel calculated rate base and associated revenue requirements (including depreciation expense). In other words, Xcel determined Sherco 3's 2014 revenue requirements work in the same manner it would for any other capital project and obtained a slightly higher result even when recognizing additional, larger than expected, 2015 insurance reimbursement in 2014.

Xcel considers the OAG's and the Department's argument to be inconsistent with the Department's "overall goal ... to treat the insurance proceeds in the same manner as the recovery of capital costs."

### **Staff Analysis**

Staff agrees with the Department and the OAG's assessments that to include insurance proceeds in the Capital True-Up deprives ratepayers of that benefit. Based on that premise, the question becomes how to properly credit ratepayers – through a refund or a reduction in rate base? Staff concurs with the Department in thinking that a 2015 rate base reduction is the most appropriate alternative. While a refund would provide "instant gratification" for all *current* ratepayers, Staff believes that doing so would result in an inappropriate intergenerational shift of costs. Since Sherco 3 is expected to be in service for many years, Staff believes that *future* ratepayers should also receive benefits that arise from the insurance proceeds.

By reducing rate base, depreciation expense over the plant's remaining life will also be reduced, therefore, ratepayers, both present and future, participate in the "reimbursement" of the \$10 million by way of lower bills. Also, by reducing rate base, the Company does not get to earn a return on the \$10 million; thereby, further increasing ratepayers' financial benefit over time.

### **Decision Alternatives**

1. Order Xcel to include Sherco 3 insurance proceeds as an offset to its rate base in this proceeding. (DOC, OAG supports alternative 1 or 2)
2. Order Xcel to refund Sherco 3 insurance proceeds to ratepayers. (OAG supports alternative 1 or 2)
3. Determine that it is appropriate for Xcel to include Sherco 3 insurance proceeds in its 2014 Capital True-Up. (Xcel)

## **Babcock & Wilcox Settlement**

### **Xcel Energy Compliance Filing**

On its June 3, 2015, Xcel made a compliance filing stating that the Company had settled their pending litigation with Babcock & Wilcox Nuclear Energy, Inc. (BWNE) and co-defendant SNC-Lavalin Nuclear for \$36 million or approximately \$10 million less than BWNE's claim. Xcel pointed out that it would reach out to the Department, OAG and your staff to best determine the timing of when we should provide this compliance filing.

### **Xcel Energy Proposed Handling**

On June 11, 2015 Xcel made a compliance filing proposing the handling of BWNE litigation outcome.

Xcel acknowledged that, at the time it filed this rate case and up until recently when they settled, it had not paid the amounts in dispute with BWNE; however, the Company had only accrued \$40 million for the invoiced work performed by BWNE prior to the project's "guaranteed acceptance date" of April 2014. Of the \$40 million, approximately \$29 million was included in the \$285 million in plant in service for the PI steam generator and the remaining \$11 million was for removal costs that reduced accumulated depreciation. To account for the \$4 million difference between the \$40 million accrued and the \$36 million settled, Xcel stated that it will reduce the 2014 plant in service beginning balance by \$2.8 million and the accumulated depreciation beginning balance will be increased by \$1.2 million.

As Xcel detailed in their Attachment A, the \$4 million (\$2.9 million Minnesota jurisdiction) difference equates to a reduction to Minnesota jurisdictional revenue requirements of \$367,000. Accordingly, Xcel has committed to refunding that amount with 2014 refunds.

### **OAG – Reply Comments**

On June 30, 2015 the OAG filed reply comments recommending that the Commission accept Xcel's proposed refund and order the Company to incorporate its proposed adjustment into the interim rate refund<sup>15</sup> and the calculation of final rates.

### **Staff Analysis**

During this proceeding's oral arguments and deliberations the focus on this issue was the \$46 million that Xcel had not paid and reference to the \$40 million accrual was made. For clarification purposes, Staff confirms that Xcel's accrual assertions were part of the record.<sup>16</sup>

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<sup>15</sup> The OAG's Schedule A on its June 30, 2015 reply comments provides the interim rate refund impact of Xcel's proposed handling of the BWNE settlement.

<sup>16</sup> OAG, January 20, 2015 Letter, Exhibit D, page 2.

Although both Xcel's and the OAG's recommendations may be identical, Staff points out a possible subtle difference. Xcel's proposal states that the Company will "commit to refunding the \$367,000 to our customers with our 2014 refunds;"<sup>17</sup> however, Staff is unclear if Xcel intends to add interest to the \$367,000. If Xcel intends to add the amount to the interim rate refund amount *before* any interest is added then both proposals are the same. If Xcel intends to add the amount *after* the *net* interim rate refund is calculated then the proposals are different. The essential difference between the two scenarios is that, in the second one, ratepayers do not receive any interest for their overpayments. Since ratepayers have paid the \$367,000 in interim rates, Staff considers that any proposal that does not include interest on that amount would be unfair to ratepayers.

Due to the uncertainty regarding Xcel's proposal, Staff considers the OAG's recommendation to be clearer and more "complete. Also, for clarification, the Commission may want to ask the Company to clarify its position. As a preemptive measure, the decision alternatives reflect both options.

Since no comments were solicited on Xcel's June 11 proposal, and no other party has commented on the proposed handling, the Commission may want ask the Department and any other stakeholders in attendance to confirm that they do not have any objections regarding final resolution of this issue.

### **Decision Alternatives**

1. Accept Xcel's proposed handling of the Babcock & Wilcox settlement and instruct Xcel to include the \$367,000 with the 2014 refunds. (Xcel)
2. Accept Xcel's proposed refund and order the Company to incorporate its proposed adjustment into the interim rate refund<sup>18</sup> and the calculation of final rates. (OAG)

## **2014 Property Taxes**

### **Xcel Energy Compliance Filing**

On June 30, 2015, Xcel made a compliance filing that, based on actual property tax statements, quantifies the final 2014 property tax expense and proposes how to handle the lower than anticipated amount.

Xcel's filing stated that total Company property taxes reflected on property tax statements were \$186.2 million and that the Minnesota electric jurisdictional amount is \$133.9 million, which is \$3.1 million lower than the 2014 year-end estimate. The Company explained that the reduction was primarily due to the lower effective tax rate indicated in the Truth in Taxation notices, with changes to market value exclusions also having a very minor impact.

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<sup>17</sup> Xcel Energy, June 11, 2015 Compliance Filing, page 2

<sup>18</sup> The OAG's Schedule A on its June 30, 2015 reply comments provides the interim rate refund impact of Xcel's proposed handling of the BWNE settlement.



Xcel previously agreed that, if the actual 2014 property taxes reflected on the property tax statements were less than the 2014 year-end amount, it would make ongoing annual refunds of the difference (on a Minnesota electric jurisdictional basis) until filing its next rate case. The Company is also now proposing to incorporate the lower amount into the 2014 and 2015 revenue requirement calculations filed in compliance with the Commission's final decision in this proceeding. Xcel stated that this will ensure that customers receive the full benefit of the lower tax level through a slightly higher 2014 interim refund and through the setting of final rates. Additionally, this will also eliminate the need for a separate property tax refund.

### **Staff Analysis**

Staff for the most part agrees with Xcel's proposed handling of the 2014 property tax. However, due to the filing's timing, at the time these briefing papers were filed other parties had not commented on Xcel's proposal. Based on that fact, the Commission may want to ask the OAG, the Department and any other stakeholders if they have any objections to Xcel's proposal and, if they do, whether they need additional time to analyze and respond to the proposal.

Staff also notes that Xcel's proposal implies a revision to Xcel's 2014 and 2015 revenue requirement for the property tax issue in the Commission's order after Xcel submits its compliance filing. Staff believes it would be more efficient to revise the revenue requirement calculations for 2014 and 2015 only once and in the order after this meeting. Staff believes this would be preferable to revising Xcel's revenue requirement for other issues decided at this meeting in the order after this meeting and then revising the revenue requirement calculations again for the property tax issue in the order issued after Xcel submits its thirty-day compliance filing.

### **Decision Alternatives**

1. Accept Xcel's proposal to incorporate final 2014 Minnesota electric jurisdictional property tax expense into 2014 and 2015 revenue requirement calculations filed in compliance with the Commission's final decision in this proceeding. (Xcel)
2. Accept Xcel's proposal to incorporate final 2014 Minnesota electric jurisdictional property tax expense into 2014 and 2015 revenue requirement calculations. Require Xcel and parties to work with Commission staff to prepare such schedules in compliance with the Commission's final decision in this proceeding for inclusion in the Order issued after this meeting and prior to Xcel submitting its thirty-day compliance filing. (Staff)
3. To allow for stakeholders' analysis and comments, postpone making a final determination on the proper handling of the 2014 Minnesota electric jurisdictional property tax expense.