Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: July 23, 2015 .... * Agenda Item No. 3

Company: Xcel Energy ("Xcel", "NSP" or the "Company")

Docket No. E-002/AI-14-759

In the Matter of the Request for Approval of New Administrative Services Agreements Between Northern States Power Company and Xcel Energy Transmission Development Company, LLC and Xcel Energy Southwest Transmission Company, LLC.

Issue(s): Should the Commission approve Xcel's Administrative Service Agreements ("ASAs")?

Staff: Clark Kaml.. 651-201-2246
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Relevant Documents

Xcel's - Petition (TS).. September 3, 2014
Department of Commerce ("Department") - Comments (TS) .... January 16, 2015
Xcel - Reply Comments (TS)... January 26, 2015
Department Supplemental Comments .... February 18, 2015
Xcel Letter .... May 27, 2015

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Issues

Should the Commission approve Xcel's Administrative Service Agreements?

Procedural History

On September 3, 2014, Xcel filed a petition requesting Commission approval of two Administrative Services Agreements, the "Petition".

On January 16, 2015, the Department filed comments recommending that Xcel provide additional information.

On January 26, 2015, Xcel filed reply comments.

On February 18, 2015, Department filed supplemental comments recommending the Commission approve the ASAs.

On May 27, 2015, Xcel filed a letter requesting that its compliance filing be due 30 days after the Commission issues an order in this docket.

Relevant Statute, Rules and Order

Minn. Stat. § 216B.48

Minnesota Statutes § 216B.48, subdivision 1, provides the definition of affiliated interests.

Minnesota Statutes § 216B.48, subdivision 3 states that no contract or arrangement with a utility's affiliate is valid or effective unless and until the contract or arrangement has received the written approval of the Commission. It also states:

> The commission shall approve the contract or arrangement made or entered into after that date only if it clearly appears and is established upon investigation that it is reasonable and consistent with the public interest. . . . The burden of proof to establish the reasonableness of the contract or arrangement is on the public utility.

Minnesota Statutes § 216B.48, subdivisions 4 to 6 govern contract amounts, applicability to rates and costs, and ongoing Commission authority over the contract.

Minn. Rules, Parts 7825.1900 – 7825.2300

The Commission's Affiliated Interests rules cover definitions, regulatory procedures, reporting requirements, and recordkeeping.

September 14, 1998 Order

The Commission's September 14, 1998 Order Initiating Repeal of Rule, Granting Generic Variance, and Clarifying Internal Operating Procedures,[1] identified the following list of information requirements necessary for an affiliated interest petition to be consistent with Minnesota Rule 7825.2200, subpart B:

1. A heading that identifies the type of transaction.

2. The identity of the affiliated parties in the first sentence.

3. A general description of the nature and terms of the agreement, including the effective date of the contract or arrangement and the length of the contract or arrangement.

4. A list and the past history of all current contracts or agreements between the utility and the affiliate, the consideration received by the affiliate for such contracts or agreements, and a summary of the relevant cost records related to these ongoing transactions.

5. A descriptive summary of the pertinent facts and reasons why such contracts or agreement is in the public interest.

6. The amount of compensation and, if applicable, a brief description of the cost allocation methodology or market information used to determine cost or price.

7. If the service or good acquired from an affiliate is competitively available, an explanation must be included stating whether competitive bidding was used and, if it was used, a copy of the proposal or a summary must be included. If it is not competitively bid, an explanation must be included stating why bidding was not used.

8. If the arrangement is in writing, a copy of that document must be attached.

9. Whether, as a result of the affiliate transaction, the affiliate would have access to customer information, such as customer name, address, usage or demographic information.

10. The filing must be verified.

[1] In the Matter of a Commission Investigation into Procedures for Reviewing Public Utility Affiliated Interest Contracts and Arrangements, Docket No. E,G-999/CI-98-651

Party Positions and Recommendations

Transmission Companies

Xcel

In response to transmission development changes resulting from Federal Energy Regulatory Commission (FERC) Order No. 1000, in April 2014, Xcel Energy Inc. formed a stand-alone transmission holding company, Xcel Energy Transmission Holding Company, LLC (XET Holdings). To provide flexibility to respond to FERC Order No. 1000, Xcel Energy Inc. created two subsidiaries of XET Holdings, Xcel Energy Transmission Development Company, LLC (XETD) and Xcel Energy Southwest Transmission Company, LLC (XEST). Xcel refers to XETD and XEST as “Transco” affiliates. All three new companies are Delaware companies headquartered in Minneapolis, Minnesota. (Please see the attachment to the briefing papers for an organization chart for Xcel and its affiliates. This chart was prepared by the Department.)

XETD was formed to seek to construct, own, and operate transmission facilities in the Midcontinent Independent System Operator, Inc. (MISO) region beyond the Company’s traditional service area. The first competitive solicitation process, in MISO is not expected to occur until 2016, and is expected to involve facilities in the “MISO South” region. Xcel stated that future projects eligible for regional cost allocation, and thus subject to competitive solicitation, could be proposed in the “MISO Classic” region, which includes MISO’s more traditional footprint of Minnesota, North Dakota, South Dakota, Wisconsin, Iowa, eastern Montana, Michigan, Illinois, Missouri, Indiana and Kentucky.

XEST was formed to seek to construct, own, and operate transmission facilities in the Southwest Power Pool, Inc. (SPP) region, and may in the future include portions of far western Minnesota, North Dakota and South Dakota outside the Company’s traditional retail service area and bordering on the MISO region. The first SPP competitive solicitation process is expected to occur in 2015 after projects are identified in the 2014 SPP Transmission Expansion Plan (STEP). The Company stated that its transmission planning and development model will allow XEST to be a transmission developer in the SPP process. Transmission projects eligible for regional cost allocation under the SPP Tariff will be subject to a competitive solicitation.

XETD and XEST will be separate legal entities with their own financing. They will rely on XET Holdings and Xcel Energy Inc. to secure funding for their projects. Xcel will not provide any credit or funding for projects to be developed and owned by XETD or XEST. As a result, XETD or XEST projects will not affect the Company’s capital structure or capital structure filings to the Commission. XETD and XEST are expected to obtain construction loans during project development, and issue corporate or project-specific debt once transmission assets are placed in service.

XEST and XETD are intended to be FERC regulated transmission-only public utilities, and will place transmission facilities they develop and own under the functional control of the applicable RTO. The costs of facilities owned and operated by XEST and XETD are expected to be recovered through the regional cost recovery mechanisms provided for under the SPP and MISO Tariffs. The Transcos filed proposed formula transmission rates with FERC on August 29, 2014, for ultimate inclusion in the SPP and MISO tariffs.

The MISO and SPP tariff filings to comply with Order No. 1000 are subject to FERC approval, or are subject to appeals. As a result, the two RTOs are also still developing their business practices for the future solicitation processes.

Department Comment

Participation in the RTO planning process by XETD and XEST will provide Xcel Energy with the ability to pursue projects outside the historic NSP service area and allow Xcel Energy to potentially capture opportunities to develop transmission projects subject to RTO competitive bidding and regional cost allocation.

The Department stated that Xcel Energy's planning efforts will be geared towards identifying transmission solutions that provide the most benefits for the least costs to customers. Using a separate legal entity would protect the Company's regulated retail ratepayers from risks of Transco development projects that may not be successful, by allocating the risk to the Transco entity and not to Minnesota ratepayers.

The Department noted that Xcel did not provide a cost/benefit analysis that identified the costs or benefits from the ratepayer's perspective associated with pursuing the Company's strategy to competitively bid for transmission facilities located outside of NSP-MN's retail service territory. The Department requested that Xcel identify and quantify any and all costs or benefits to ratepayers in its reply comments associated with its decision to pursue its proposed transmission strategy.

Affiliate Interest Agreements

Xcel

Northern States Power Company requested approval of two proposed Administrative Services Agreements (ASAs), one with XETD and one with XEST. The ASAs establish the terms and conditions for the Xcel to provide, on an as available basis, personnel, goods, and services to support XETD and XEST transmission planning, development, construction and other activities. Xcel stated that the ASAs:

> Provide for charges to the XETD and XEST on a fully-allocated cost basis.
>
> Contain terms substantively similar to those for the provision of transmission planning, development and other activities the Company provides to Northern States Power Company, a Wisconsin corporation (NSPW) under the Administrative Services Agreement approved in Docket No. E-002/AI-14-165.

Xcel stated that it did not execute an XET Holdings service agreement because Company personnel and resources are not expected to support XET Holdings.

Xcel explained that XEST or XETD may form additional project specific subsidiaries, joint ventures, or other forms of partnerships. To address this potential, the ASAs are "umbrella agreements" that would allow the Company to provide services to XETD and XEST subsidiaries through their parent affiliates.

At the time of the filing, NSP-MN personnel had not provided services to the Transco affiliates. Xcel stated that it is uncertain to what extent Company personnel may provide direct support to XETD or XEST in the future, or if the amount will exceed the Minn. Stat. § 216B.48 threshold of $50,000 in 2014. Most support services to the Transcos are being, and will be, provided by Xcel Energy Services Inc. ("Service Company" or "XES") personnel.

Xcel claimed that the formation of the Transcos and the two Administrative Services Agreements are consistent with the public interest. The Transcos will allow Xcel Energy the opportunity to influence the regional transmission planning and development process. The service agreements encourage efficiency with the Commission's time and oversight authority as well as existing Xcel resources.

The Company requested Commission approval of the ASAs for regulatory purposes effective August 28, 2014, the date they were executed.

Department

The Department stated that Xcel's protocol for determining the price XETD and XEST would pay for services rendered by NSP-MN appears reasonable since it is consistent with the approach the Commission required Xcel to use in its cost-allocation determinations in its September 28, 1994 Order, in Docket No. G,E-999/CI-90-1008.

The Department stated:

> The two ASAs were identical except for the name of the affiliates.
>
> It believes the cost-recovery mechanism described in the two ASAs is reasonable.
>
> The Commission has ongoing authority over the affiliated-interest contracts.

Rate Case Impact and Reporting

Xcel

The Company noted that its 2014 rate case test year did not anticipate the provision of employee labor or services to the Transco entities and was not reflected in the rate case, Docket No. E-002/GR-13-868. Xcel Energy created a work order system to segregate and track costs by Transco legal entity and project. Unique work orders were established for the purpose of billing amounts due from the Service Company and an Operating Company to the relevant Transco entity. By charging to the work orders, the Service Company and the Company can account for all costs billed to the Transco entities.

Through July 2014, Xcel Energy has recorded approximately $736,000 in costs related to Transco efforts in the work orders. These costs primarily relate to incremental outside consultants, outside legal support, and unbudgeted Service Company labor, but also include certain Service Company employee labor costs where the 2014 budget allocated the costs to the Xcel Energy Operating Companies (mostly transmission, legal, finance, and executive labor).

Since a portion of those budgeted 2014 Service Company labor costs were allocated to the Company, a portion of the Service Company labor costs included in the 2014 Test Year relate to labor that is in fact providing support to the Transco entities in 2014. This Service Company labor has been recorded in the Transco work orders. Since direct Company employees have not been providing support to the Transco effort, there were no charges by Company personnel to the Transco work orders through July 2014.

Xcel forecasted that approximately $149,000 of 2014 budgeted Service Company labor costs will be incurred in 2014 in support of the Transco initiative rather than allocated to the Minnesota Electric Jurisdiction as included in the 2014 Test Year. To ensure that costs incurred to support Xcel Energy's Transco efforts are not charged to Minnesota ratepayers, Xcel proposed to submit compliance filings that will provide an accounting of Service Company and direct Company labor costs included in the 2014 Test Year but which were, on an actual basis, billed to the Transco work orders in 2014 and 2015, respectively. Xcel proposed to defer, and credit in its next electric rate case, the Service Company and Company costs included in the 2014 rate case test year where the employee labor or services were actually provided to the Transco entities in 2014.

Xcel proposed to submit compliance filings by May 29, 2015, and May 31, 2016 that will identify the amount of direct labor that was billed to Transco work orders in 2014 and 2015. In their May 27, 2015, letter, Xcel proposed to submit its first Compliance Filing thirty (30) days after the Commission issues an order in this Docket, rather than on May 29, 2015. The Company also proposed to provide ongoing reporting of charges to the Transcos under the ASAs in the annual affiliated interest report submitted each May 1 pursuant to Minn. Rule, Part 7825.2200.

Department Comment

The Department's understanding of Xcel's proposal is that the Company is essentially recognizing that the forecasted amount of XES-related expenses included in NSP-MN's 2014 and 2015 revenue requirements, in Xcel's 2013 rate case, were or will be slightly higher than the actual amounts XES has or will incur given this proposed change.

The Department agreed that it would be reasonable to establish a tracker account for these revenues, including a carrying charge set at short-term interest rates, which is the same level currently used for other tracker accounts.

The Department noted that because Xcel has a transmission cost recovery rider ("TCR"), credits to ratepayers would not need to wait until Xcel's next rate case since they could be used as an offset to costs recovered in Xcel's TCR. This same mechanism would apply to transmission-related costs currently included in NSP-MN's forecasted 2014 and 2015 expenses that could be allocated to XES, XET, XETD, or XEST.

The Department stated that approval of the ASAs could have a minor beneficial effect on the Company's operating costs as they will be calculated in its next general rate case by allowing the allocation of transmission-related costs at either the Service Company or Company level to

XETD and XEST and not to NSP-MN. The Department agreed that Xcel's proposed level of reporting is appropriate.

The Department generally agreed that there is a need for ongoing reporting and indicated that it is willing to participate in the development of protocols and principles related to the deployment of the Transco's efforts.

The Department indicated that one issue that should be discussed relates to the potential financial risks to ratepayers associated with XEST and XETD FERC formula rate filings. The Department noted that the Commission will have ongoing authority over these contracts and an ongoing responsibility to assess the effects on ratepayers in practice. The Department issued several information requests (IRs) related to this topic. Xcel's responses to the Department's IRs are included as Attachment 3 to the Department's January 16, 2015, comments. The Department stated that the information in Attachment 3 is intended to reflect the kind of assessment that the Department is likely to conduct if the ASAs are approved.

Transmission Company Participation in Traditional Xcel Territory

Xcel

Xcel stated that its Transco initiative is in the early stages of development and it has not determined how the Transcos and NSP-MN will interact in development of future transmission projects. Currently, MISO's Order No. 1000 compliance process provides deference to state based rights of first refusal (ROFR) for "incumbent utilities." Xcel expects that its transmission development efforts in its traditional service territory will remain largely unchanged and the Xcel would develop and own any new transmission needed in its service area.

Department

The Department noted that any effort by XETD to build transmission connected to transmission facilities in Minnesota would require approval from the Commission and would not be likely to succeed based on information at this time. Minnesota ratepayers receive benefits such as financial transmission rights and auction revenue rights, along with revenues from MISO cost sharing. Ratepayers may lose some or all of these benefits if XETD builds transmission instead of NSP-MN. In addition, FERC's overall rate of return in its formula rates is currently excessive, an issue that is subject to a FERC proceeding. Xcel agrees that the Commission has authority over Certificate of Need proceedings in Minnesota and could require NSP-MN rather that XETD to build lines in Minnesota if it is in the public interest.

Given Minnesota's ROFR, the requirements in Minn. Statute § 216B.243 (the Certificate of Need for Large energy Facilities statute) regarding consideration of alternatives and effects on costs for ratepayers, and the Commission's continuing authority over affiliated-interest agreements, the Department concluded that the Commission would be able to protect Xcel's Minnesota retail ratepayers in the future, for example by requiring NSP-MN to build transmission facilities in Minnesota rather than XETD

XES Service Agreements and ASA Arrangements

XETD and XEST executed Service Agreements with Xcel's Service Company (XES) effective in May 2014, which provide the rates, terms, and conditions for Service Company charges to XETD and XEST on a fully allocated cost basis. If NSP-MN personnel provide support to XETD and XEST activities or projects, the ASAs will charge the respective Transco for these services on a fully allocated cost basis, consistent with Commission cost allocation principles. The cost allocation provisions of the two ASAs are consistent with those in the ASA between the Company and NSPW recently approved in Docket No. E002/AI-14-165. Under that ASA, the Company provides transmission planning, engineering and construction services for NSPW transmission projects.

Public Interest Review

Xcel

The Transcos will allow Xcel Energy to participate in the MISO and SPP transmission development process and potentially capture opportunities to develop transmission projects subject to RTO competitive bidding and regional cost allocation requirements.

Participation in the RTO planning process by XETD and XEST will provide Xcel Energy with the ability to pursue projects outside the historic NSP service area. Participation in the planning process is a factor in MISO and SPP's selection of the developer for competitively bid projects. Xcel Energy's planning efforts will be geared towards identifying transmission solutions that provide the most benefits for the least costs to Xcel's customers.

Xcel stated that using a separate legal entity would protect the Company's regulated retail ratepayers from risks of Transco development projects that may not be successful, by allocating the risk to the Transco entity (and Xcel Energy shareholders) and not to Minnesota ratepayers. Xcel Energy's entrance into the competitive transmission development market is in the public interest. Xcel expects its transmission development model to have a positive effect by facilitating competition in the RTO competitive solicitation processes for projects where no state law ROFR statute may apply.

Xcel argued that the standard governing the Commission's review of a service agreement is whether the contract is reasonable and consistent with the public interest. Xcel argued that the ASAs are reasonable and in the public interest because:

> The agreements balance the Commission's affiliate transactions oversight with an effective use of resources.
>
> The payment provisions reimburse the Company for the fully allocated costs of providing services, consistent with numerous other ASAs previously approved by the Commission.
>
> The ASAs provide that Company personnel and resources may be provided to the Transcos only on an "as available" basis.

Department

The Department stated that Xcel did not perform a discreet cost/benefit analysis in this filing. Xcel identified the following benefits resulting from approval of the ASAs:

> Costs for services rendered to XETD and XEST from either XES or NSP-MN would be billed at fully-allocated cost, deferred and then credited back to NSP-MN's revenue requirement in its next general rate case.
>
> Administrative cost savings associated with approval of the ASA's related to the Commission's time would occur; and,
>
> NSP-MN transmission-related resources would be used to address Company needs before addressing XETD or XEST's needs.

The Department stated that Xcel did not identify or quantify any costs to ratepayers associated with the approval of the ASAs in the petition. The Department requested that Xcel include a discreet cost/benefit analysis that identifies and quantifies any costs and benefits associated with the ASAs to ratepayers in its reply comments.

Benefits Associated with the ASAs for Ratepayers

Xcel

In reply comments, Xcel stated that the proposed ASAs benefit ratepayers by preventing cross-subsidization and providing the Company payment for the use of its available resources. According to the ASAs:

> Personnel, goods, and services to support the Transcos' activities are on an "as-available" basis.
>
> The Company will charge the Transcos on a fully-allocated cost basis for the provision of transmission planning and development activities.

Because the support is provided by the Company on an as-available basis, these entities reduce costs to the Company by providing payment for the use of available resources. If the Transcos do not use the resources, the Company will not be paid and the resources will continue being used the same as they are today to support Company activities, with the Company and ratepayers no better or worse off. If the Transcos do use the resources, the ASAs allow the Company, and thus, the ratepayers, to take advantage of economies of scale.

Xcel stated that a specific cost benefit analysis is difficult to prepare due to the lack of actual scenarios for these proposed ASAs and the uncertainty of the future level of work by Company personnel or resources for the Transcos. The majority of resources are expected to be provided by Service Company personnel and no services have been provided to date by Company personnel.

Xcel noted that in its policy statement in Docket No. E,G-999/CI-90-1008, the Commission ruled it is appropriate for regulated utilities to provide services to affiliates and non-regulated divisions if the affiliates were charged on a fully-allocated cost basis. Xcel argued that the ASAs with the Transcos are similar in both terms and cost allocation methodology to numerous ASAs executed by the Company and approved by the Commission.

Department

The Department stated that it appears as though ratepayers are unlikely to be harmed due to Xcel's agreement to use fully distributed cost as the mechanism for the provision of transmission planning and development activities under the ASAs. Further, Minnesota Statute section 216B.48, subd. 6 gives the Commission ongoing authority over the affiliated interest agreement.

Ratepayer Impact from Transco Initiative

Xcel

The intent of the Transco initiative is to allow Xcel Energy to be a low cost transmission service provider in the Order No. 1000 competitive solicitation processes mandated by FERC. The Company stated that it is difficult to discuss the benefits of the Transco initiative in the abstract. However, if successful, the Company thinks the endeavor will provide benefits to all recipients of transmission services under the MISO Tariff. To the extent NSP-MN customers receive MISO transmission services, they will benefit as well.

Xcel stated that due to the timing of cost allocation projects in the MISO planning process, a forward looking assessment of the costs and benefits of the Transco initiative is difficult to perform. Xcel provided an example using data from MISO Schedule 26a (which recovers the costs of certain projects eligible for regional cost allocation) by replacing another utility's cost data for a project already planned for the MISO region with Xcel Energy Transmission cost data. The analysis compared the estimated cost of an approved Multi-Value Project ("MVP") to be constructed by Ameren Transmission Company of Illinois ("ATXI") with the costs using Xcel Energy Transmission cost data.

The analysis, provided as Attachment B to Xcel's reply comments, used Xcel Energy Transmission indicative construction costs per mile instead of the ATXI estimated costs. Under this scenario, the 20 year net present value ("NPV") of the project's annual transmission revenue requirements ("ATRR") is less if Xcel Energy's Transco were able to construct the project using Xcel Energy Transmission indicative construction costs than with ATXI constructing the project. Xcel stated that NSP retail ratepayers make up approximately 85 percent of the loads in the NSP pricing zone, so would receive approximately 85 percent of the savings.

Xcel stated that a second way an Xcel Energy Transco could provide benefits to ratepayers would be if the Transco's fixed charge rate ("FCR") were lower than the FCR of other bidders for a competitive project in MISO. A lower FCR would result in a lower ATRR over the life of the MVP, also providing savings to ratepayers in the MISO region, including in the NSP pricing zone. For example, the NSP Companies' FCR is presently lower than the ATXI FCR for the identified project. If one assumes the ATXI construction cost estimate but assumes XETD were able to offer an FCR equal to the NSP Companies' FCR, XETD ownership would provide some savings to MISO ratepayers, including the Company's ratepayers in Minnesota.

Xcel noted that these analyses are illustrative of how Xcel Energy Transco ownership of new transmission facilities outside the Company's historic retail service area might provide future benefits to Company ratepayers. The Company would not propose to own these projects because they are in areas or states Xcel does not presently serve. The Transco initiative provides an opportunity to apply Xcel Energy Transmission's capabilities in such a situation. Notably, numerous entities could submit bids in the MISO competitive solicitation process, and MISO will select the best overall bid. An Xcel Energy Transco would only be selected as project developer if MISO concluded the Transco provided the best overall bid, i.e., the most beneficial project for MISO ratepayers.

The Company requested that the Commission find the Administrative Services Agreements to be consistent with the public interest and approve the agreements for regulatory purposes effective August 28, 2014.

Department

The Department stated that because Xcel's analysis is using hypothetical costs, the Department considers the assumption of lower construction costs to be speculative at best. The Department noted that rather than a comparison of Ameren to XETD, the correct comparison should be of NSP-MN costs to XETD costs. Minnesota ratepayers receive benefits of NSP-MN-owned transmission by receiving:

1. Offsetting transmission revenues for shared transmission via the transmission cost recovery rider and in rate cases;

2. Financial transmission rights (FTRs); and

3. Auction revenue rights (ARRs), which they would not receive under a Transco model.

The Department stated that since MISO does not have a process that reviews or challenges cost overruns, financial accountability in MISO's bidding process is unlikely to occur. The Department noted that it, along with various organizations, are raising concerns before FERC regarding excessive returns on equity and overall cost of capital, particularly for stand-alone transmission companies, that would be exacerbated if an Xcel Transco is allowed to build transmission in Minnesota without prior Commission review.

The Department stated that the Commission should require Xcel to file a petition with the Commission if an Xcel Transco proposes to build new transmission connected to transmission facilities located in Minnesota. The Department argued that given the concerns it raised, it is unlikely to be in the public interest for one of Xcel's Transcos to build new transmission in Minnesota rather than the incumbent utility.

The Department noted that the Company agreed with the Department's statements that the Commission has ongoing authority over the ASAs and over any effort by XETD to build transmission facilities in NSP-MN's retail service territory.

Use of the TCR versus Deferred Credits

The Company proposed to defer and credit in its next electric rate case the Service Company and Company costs included in the 2014 rate case test year where the employee labor or services were actually provided to the Transco entities in 2014.

The Department agreed that compliance filings identifying the direct labor provided to the Transcos is an appropriate level of reporting. The Department suggested using the TCR as a potential mechanism for returning any deferred revenues resulting from the Transco initiative to ratepayers, rather than waiting for the next rate case.

Xcel stated that it is open to using the rate case deferral mechanism or the TCR for returning the cost adjustment to customers. However, it had some concerns:

> The Service Company and Company costs at issue are costs that were included in base rates in the 2014 test year cost of service.
>
> The appropriate use of the TCR and other riders has been discussed at length by stakeholders and is still part of an ongoing dialogue.

Xcel stated that in the current TCR docket, the Department suggested that impacts of a reduction in the MISO return on equity (ROE) should be addressed in a future rate case because it impacts 2014 costs included in base rates. However, in that docket, Xcel and the Department reached an agreement that it would be premature for the Commission to consider a reduction in the regional MISO ROE before the FERC makes its decision in FERC Docket No. EL14-12.[2]

The Department stated that after reviewing Xcel's discussion, it agrees that a rate case deferral mechanism is preferable.

ADDITIONAL DEPARTMENT COMMENTS

Competitive Situation

The Department stated that the requirement for making a showing that competitive bidding was used to select the affiliate, in Minn. Rules, Part 7825.2200(B) (5), does not appear to be relevant in this instance.

Impairment of Effective Regulation

The Department stated that it cannot identify any term or condition in the two ASAs that would impair effective regulation in the near term. The Department believes the Company's ratepayers

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[2] Order Approving 2015 Transmission Cost Recovery Rider Tariff, Adjustment Factors, and 2014 TCR True-up; In the Matter of the Petition of Northern States Power Company, d/b/a Xcel Energy, for Approval of a Modification to its Transmission Cost Recovery (TCR) Tariff, 2015 TCR Rider Rate Adjustment Factors, and 2014 TCR True-Up; Docket No. E-002/M-14-852 (June 29, 2015), p. 4

may benefit from the creation of a tracker and deferred account compared to what would (or would not) happen to rates in the absence of that deferred account.

Summary

The Department concluded that:

> Xcel's proposal would have no impact on NSP-MN's operating costs and rate levels in 2015. It may have a positive impact when Xcel files future rate cases or TCRs;
>
> The fully allocated cost-recovery protocol the Company provides in its comments is reasonable;
>
> The competitive situation criterion does not apply;
>
> The approval of the two ASAs would not apparently impair effective regulation in the near term; and
>
> The Commission will have ongoing authority over the ASAs.

Department Recommendation

The Department recommended that the Commission:

> Approve the ASAs effective with the date of the Commission's Order in this proceeding, with ongoing reporting requirements and fully allocated cost and revenue credits for ASAs in future Xcel rate cases.
>
> Require Commission authorization prior to allowing Xcel's Transco XETD to build new transmission in Minnesota rather than NSP-MN or another rate-regulated utility in Minnesota.

Commission Options

Some Commission options are:

A. Find that the affiliate interest Agreements contained in Xcel's filing are reasonable and consistent with the public interest and approve the affiliate agreements.

B. Adopt the Department's recommendations and:

   1. Approve the ASAs with ongoing reporting requirements, fully allocated cost and revenue credits for ASAs in future Xcel rate cases. and

   2. Require Commission authorization prior to allowing Xcel's Transco XETD to build new transmission in Minnesota rather than NSP-MN or another rate-regulated utility in Minnesota.

C. Determine, for regulatory purposes, that the ASAs are effective:

   1. With the date of the Commission's Order in this proceeding. or

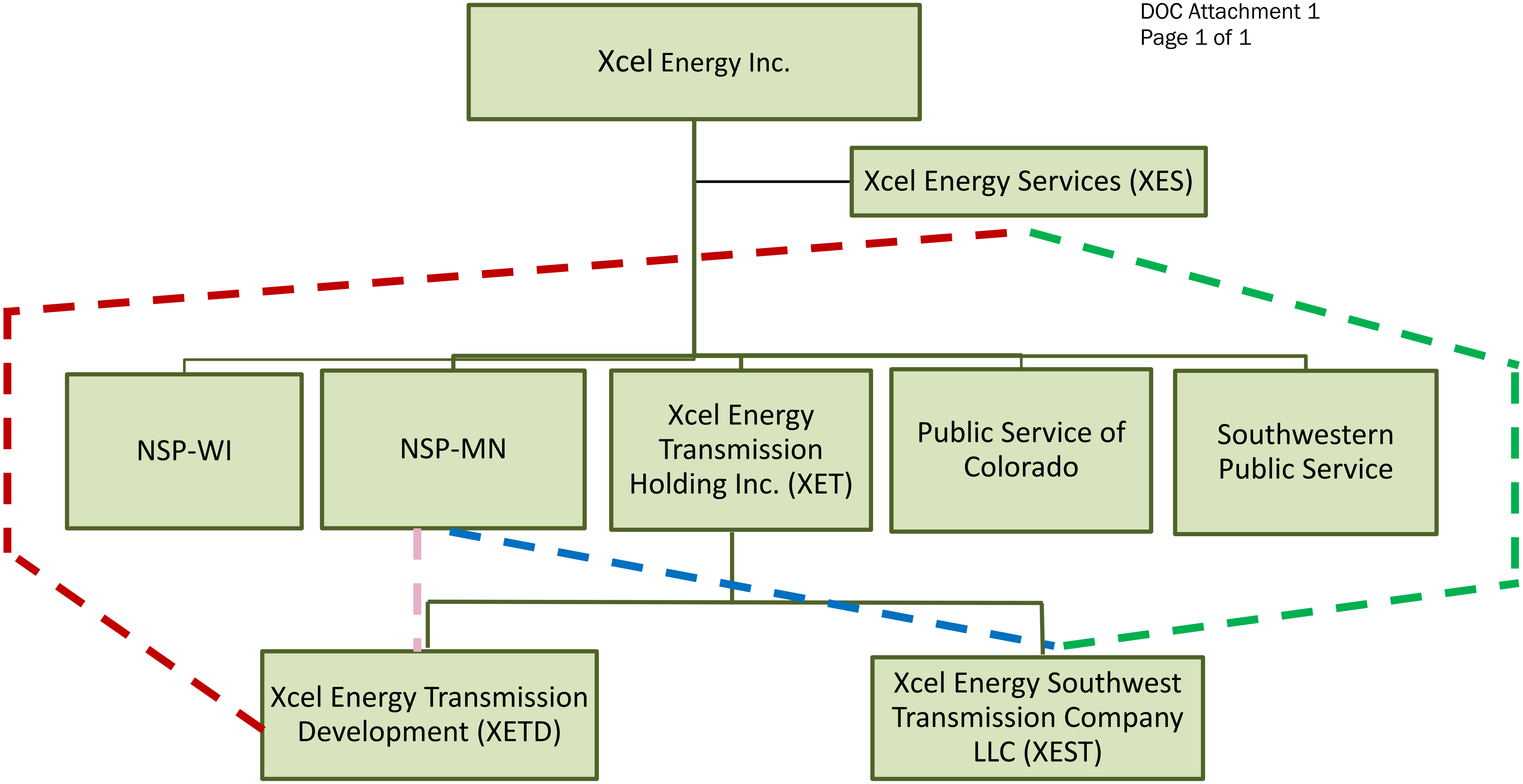
   2. August 28, 2014, the date they were executed.

D. If the Commission approves B.1. above it may want to specify the reporting requirements by adopting the following:

   1. Adopt Xcel's proposal to submit compliance filings: (a) thirty (30) days after the Commission issues an order in this Docket, and (b) by May 31, 2016, that will identify the amount of direct labor that was billed to Transco work orders in 2014 and 2015. and

   2. Accept Xcel's proposal to provide ongoing reporting of charges to the Transcos under the ASAs in the annual affiliated interest report submitted each May 1 pursuant to Minn. Rules, Part 7825.2200.

E. Find that the Commission cannot determine that the affiliate interest agreements are reasonable and consistent with the public interest.



= XETD/NSP-MN Administrative Services Agreement – Attachment B of filing
= XEST/NSP-MN Administrative Services Agreement – Attachment C of filing
= XETD/Xcel Energy Services Agreement – Attachment F1 of filing
= XEST/Xcel Energy Services Agreement – Attachment F2 of filing