

January 13, 2015

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

RE: Northern States Power Company's November 13, 2014 Proposed Methodology for
Determining the Interim Rate Refund
Docket No. E002/GR-13-868

Dear Mr. Wolf:

The Minnesota Department of Commerce, Division of Energy Resources (Department or DOC) reviewed the methodology for determining the interim rate refund as proposed by Northern States Power Company, a Minnesota Corporation (Xcel Energy or the Company) in the current docket, and offers the following comments.

I. SUMMARY OF PROPOSAL

As explained on page 3 of its November 13, 2014 filing, the Company proposes:

...that the interim rate refund be calculated by taking the difference between: (1) the sum of the total revenue collected for the months that interim rates were in effect and (2) the total amount of revenue that would have been collected had final revenue requirements for 2014 and final revenue requirements for 2015 been effective over the course of the period beginning January 1, 2014 through the Commission's final determination...If the interim revenues actually received exceed the final Commission approved revenue requirements for the entirety of the time period, the difference would be refunded with interest consistent with the Interim Rate Statute, subject to any modifications the Commission may order.

II. DEPARTMENT ANALYSIS

Minnesota statutes do not specifically provide direction on interim rate refunds in a multi-year rate proceeding. Thus, the Minnesota Public Utilities Commission (Commission) has discretion to make its own interpretation as to what is the appropriate interim rate over-and/or under recovery, and potential refunds, surcharges, etc.

Minnesota Statutes Section 216B.16, subd. 3 (c) states:

If, at the time of its final determination, the commission finds that the interim rates are in excess of the rates in the final determination, the commission shall order the utility to refund the excess amount collected under the interim rate schedule, including interest on it which shall be at the rate of interest determined by the commission. The utility shall commence distribution of the refund to its customers within 120 days of the final order, not subject to rehearing or appeal. If, at the time of its final determination, the commission finds that the interim rates are less than the rates in the final determination, the commission shall prescribe a method by which the utility will recover the difference in revenues between the date of the final determination and the date the new rate schedules are put into effect.

The Department believes there are at least two approaches the Commission could consider. Xcel's approach would view the interim-rate period as one time period in which the revenues collected under the interim rates are compared to the total revenues collected under the two sets of rates for the test years 2014 and 2015. Although the Company did not provide a hypothetical calculation of the interim rate over and/or under-collections using its proposed methodology in its November 13, 2014 proposal, the Department assumes that application of the proposal would reduce the amount of under-collection of interim rates during the year 2015 by any over-collection of interim rates in 2014. That is one option that the Commission may consider.

Another option the Commission may wish to consider is treating the two test years of 2014 and 2015 separately for purposes of determining the total refund to ratepayers. This approach would continue to charge interim rates based on the authorized interim rate increase of approximately \$127,400,000 per year; however, under this option the over-and/or under-recovery of interim rates would be calculated separately for each year. For 2014, ratepayers would receive a refund based on the difference between the actual revenues and authorized revenues. The same would be true for 2015 if final rates are less than authorized interim rates. However, if final rates are higher in 2015 than authorized interim rates, then consistent with Minnesota Statutes Section 216B.16, subd. 3 (c), Xcel would be allowed to surcharge ratepayers for under-recovered revenues for the period between the date of the Commission's final rate determinations and the date new rate schedules are put into effect. Since new final rates for 2015 will not be implemented on January 1, 2015, the recovery of under-recovered rates would only pertain to the few months between the date of final rate determination and the date new rate schedules are put into effect under this approach.

A key factor that appears to distinguish between these two options is whether the Commission focuses on rates or revenues. If the Commission focuses on revenues only, then Xcel's approach may be acceptable. However, if the Commission focuses on rates, then the Commission should consider the fact that there are two sets of rates to decide, one set for 2014 and one for 2015. In that case, the statute appears to require a comparison of interim rates and final rates separately for the two test years:

If, at the time of its final determination, *the commission finds that the interim rates are less than the rates in the final determination*, the commission shall prescribe a method by which the utility will recover the difference in revenues between the date of the final determination and the date the new rate schedules are put into effect.

If the Commission focuses on rates in each year of the multi-year rate case, then the approach of comparing interim rates to final rates for the two test years would be appropriate.

Attached to these comments is a simple hypothetical calculation of the interim rate over and/or under-collections using both methods. First is a calculation of the effect of Xcel's proposal, given the information filed in Xcel's 8K based on the Administrative Law Judge's (ALJ's) Report. As shown in the attachment, under Xcel's approach, there would be a refund of \$13.78 million. Under the approach where each test year is treated separately, there would be a refund of \$36.65 million for ratepayers. These figures would change to the extent that the Commission's decisions differ from the ALJ's Report.

The Department observes that the language in statute refers to rates rather than revenues. Thus, for purposes of determining the interim rate refund in this proceeding, considering each test year separately appears to be more consistent with Minnesota Statutes Section 216B.16, subd. 3 (c). Thus, the Department recommends that the interim-rate refund be determined by adding interest to the 12 monthly over-collections during the year 2014, reduced by under-collections during the months of May, June and July of 2015.

Sincerely,

/s/ DALE V. LUSTI
Financial Analyst

DVL/ja
Attachment

Interim-Rate Refunds/Surcharges

Below are hypothetical calculations, based on the following information:

- (1) Interim rates effective 1/3/14 in the amount of \$127.4 million, per the Minnesota Public Utilities Commission's (Commission) *Order Setting Interim Rates* dated January 2, 2014.
- (2) Xcel Energy's interpretation of the Administrative Law Judge's (ALJ) Order is that Final Rates for the 2014 Test Year are \$73.6 million, per page 5 of 7 of Xcel Energy's 12/29/14 Form 8-K Report to the Securities and Exchange Commission (SEC).
- (3) Xcel Energy's interpretation of the ALJ Order is that Final Rates for the 2015 Step Year are \$196.0 million, per page 5 of 7 of Xcel Energy's 12/29/14 Form 8-K Report to the SEC.
- (4) Xcel may "recover the difference in revenues between the date of the final determination and the date the new rate schedules are put into effect."
- (5) Final determination by the Commission of the 2014 Test Year and 2015 Step Year will be issued on May 1, 2015 (assuming no requests for reconsideration).
- (6) New rate schedules will be implemented on August 1, 2015.

Using the above assumptions, in 2014 on an annual basis, the Company will have collected \$53.8 million ($\$127.4 - \73.6) revenues in excess of the amount authorized. On a monthly basis, the Company will have collected approximately \$4.5 million in revenue in excess of final rates during the year 2014.

Using the above assumptions, in 2015 on an annual basis, the Company will have under-recovered \$68.6 million (or $\$196.0 - \127.4) of authorized revenue. On a monthly basis, the Company will have under-recovered approximately \$5.7 million of authorized revenue during the months of May, June and July of 2015.

Potential refund to ratepayers under Xcel's proposal:

- 2014 refund: \$53.8 million
- 2015 surcharge: \$5.7 million x (Jan. – April) 4 months = \$22.87 million
- Net refund: \$53.8 million - \$22.87 million = \$30.93 million
- 2015 surcharge: \$5.7 million x 3 (May – July) = \$17.15 million
- Final Refund: \$30.93 million - \$17.15 million = \$13.78 million

Potential refund to ratepayers if test-years are treated separately:

- 2014 refund: \$53.8 million
- 2015 surcharge: \$5.7 million x 3 = \$17.15 million
- Net refund: \$36.65 million