414 Nicollet Mall
Minneapolis, MN 55401

May 26, 2017

—Via Electronic Filing—

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

RE: RESPONSE COMMENTS
STATE ENERGY POLICY RIDER
DOCKET NO. G002/M-17-174

Dear Mr. Wolf:

Northern States Power Company, doing business as Xcel Energy, submits this Response to the May 17, 2017 Response Comments of the Minnesota Department of Commerce – Division of Energy Resources in the above-referenced docket.

We have electronically filed this document with the Minnesota Public Utilities Commission, and copies have been served on the parties on the attached service list.

If you have any questions regarding this filing please contact Rebecca Eilers at rebecca.d.eilers@xcelenergy.com or (612) 330-5570, or me at (612) 330-7681 or lisa.r.peterson@xcelenergy.com

Sincerely,

/s/

LISA R. PETERSON
MANAGER, REGULATORY ANALYSIS

Enclosures
c: Service List

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

Nancy Lange	Chair
Dan Lipschultz	Commissioner
Matthew Schuerger	Commissioner
Katie J. Sieben	Commissioner
John A. Tuma	Commissioner

IN THE MATTER OF THE PETITION OF NORTHERN STATES POWER COMPANY FOR APPROVAL OF A MODIFICATION TO OUR NATURAL GAS SEP TARIFF, 2017 PROJECT ELIGIBILITY, 2017 SEP RATE FACTOR, AND 2016 SEP COMPLIANCE FILING

DOCKET NO. G002/M-17-174

RESPONSE COMMENTS

INTRODUCTION

Northern States Power Company, doing business as Xcel Energy, submits to the Minnesota Public Utilities Commission this Response to the May 17, 2017 Response Comments of the Minnesota Department of Commerce – Division of Energy Resources regarding our State Energy Policy (SEP) Rider filing.

The Company stands by our position that recovery of the Cast Iron Pipe Replacement Project costs and the costs associated with the Regulatory Administrator (RA) should be allowed to continue through the SEP Rider for the reasons discussed in our Reply Comments.[1] We believe it is reasonable and consistent with Commission precedent to continue recovery through the SEP Rider; however, should the Commission decide the SEP Rider should be discontinued, the Company agrees that the Gas Utility Infrastructure Cost (GUIC) Rider would also be an appropriate alternative recovery mechanism. If the Commission wishes to consolidate these two riders, the Company respectfully requests that the SEP Rider be allowed to continue into the 2017-2018 SEP Period as proposed in the present docket, with an order point that directs the Company to include the costs under the GUIC Rider (as opposed to the SEP Rider) in its next GUIC Rider filing. By doing so, the Commission, Company and stakeholders can work through the logistics of

[1] Filed April 10, 2017

consolidating the two riders in a single future filing, as opposed to trying to consolidate the two riders while both are pending before the Commission.

Our Response also addresses the Department's proposed changes to ADIT proration, capital structure, and ROE in addition to other recommendations which were presented in Attachment A of the DOC Response Comments.

RESPONSE COMMENTS

A. History of the Cast Iron Pipe Replacement Project

By way of background, cast iron pipe was commonly used in installations of natural gas distribution systems through the first half of the twentieth century. It was a material that was readily available and typically installed in ten-foot lengths with caulked joints. The former Northern States Power Company (NSP) installed a significant amount of cast iron pipe first in manufactured gas distribution systems, and later in natural gas distribution systems, as natural gas was brought into NSP's St. Paul service area in the 1930s. While cast iron pipe was common in the industry, it was prone to problems including:

- leaking and cracking if soil around the piping is disturbed;
- becoming graphitized as it ages, increasing the risk of cracking;
- drying out at the caulked joints, increasing the risk of cracking;
- susceptibility to leaking at the fused or welded connection points that are present because cast iron piping must be done using a mechanical fitting or by tapping and threading; and
- susceptibility to water infiltration due to being operated at low pressure, which can cause operating issues in distribution systems and cause problems for end users of natural gas.

The Company replaced cast iron as failures occurred and as street construction work impacted areas with cast iron distribution systems, but requested SEP Rider recovery to replace the remaining cast iron in its distribution system from 2008-2012. As is clear from this record, regardless of where the Cast Iron Pipe Replacement Project costs are recovered, these costs were prudently incurred and the project was important for public safety.

B. SEP Rider Recovery is Reasonable Despite Statute Repeal

We disagree with the Department that the repeal of the statutes authorizing SEP recovery was not transparent. Recovery of the Cast Iron Pipe Replacement Project costs through the SEP Rider has been approved by the Commission since 2008, including three years after the repeal of the Greenhouse Gas Initiative (GHGI) Statute in 2013.[2] As described in our April 10, 2017 Reply Comments, the amendment to repeal the statute was requested by the Commission. Therefore we think it is reasonable to conclude that the Commission was aware of the repeal. Similarly, the RA costs have been approved through the SEP Rider since the rider was established in 2003, *including* for five years after the original statute[3] was repealed. This statute's repeal was specifically noted in subsequent SEP Rider Petitions; yet, the Commission continued to approve recovery.

The Department also notes that no other utility uses a rider mechanism to recover RA costs, nor are the Company's electric RA costs recovered through a rider. We question whether the regulatory strategy of other utilities is relevant here and further note that the Company's electric RA costs were recovered through the SEP Rider until January 1, 2014 in conjunction with the implementation of interim rates in an electric rate case. We anticipate that the gas SEP costs would be similarly included in our next gas base rate request.

The Department agreed with our assertion that new capital costs were not incurred under the GHGI Statute after its repeal, but noted that $265,460 in annual Property Taxes are included in the current rider request. We note that the Commission approved property tax recovery in the SEP Rider of $228,825 in 2013 for the same property when the GHGI Statute was repealed. We further note that Property Taxes were approved for inclusion in the revenue requirements calculation associated with the Cast Iron Pipe Replacement Project. Like Income Taxes and Interest Expense, these are appropriate project costs and should be treated as such.

C. GUIC

We believe recovery of these costs through the SEP Rider provides greater transparency for examining the Cast Iron Pipe Replacement Project compared to the GUIC Rider. Historical Cast Iron Pipe Replacement Project revenue requirements decline each year since the project has been completed and there are no new expenditures. Thus all the components of the revenue requirement calculations

---

[2] Minn. Stat. § 216B.1637

[3] Minn. Statute § 216C.052, subd. 2

(Income Taxes, Property Taxes, Interest Expense and Return) are directly associated with the Cast Iron Pipe Replacement Project capital costs. Conversely, new and on-going Integrity Management initiatives recovered through the GUIC and their associated costs vary year over year. Keeping Cast Iron Pipe Replacement Project costs in the SEP tracker, where the data is comparable year over year to past SEP recovery filings, may ease the review and validation process.

Should the Commission determine that the SEP Rider should be discontinued, we ask that the Commission defer its discontinuance until after the proposed 2017-2018 SEP Period. As the Department suggests in its May 17, 2017 Response Comments, the GUIC Rider would be an appropriate recovery mechanism for the Cast Iron Pipe Project costs since we believe the GUIC Statute effectively replaced the GHGI statute.[4] However, the Department's Response Comments note that the Department has not yet fully vetted whether the SEP Rider costs meet the statutory requirements of the GUIC Statute, so a transfer of these costs into another pending docket may not allow for thorough review. The Department has already submitted two rounds of comments in the currently pending GUIC Rider proceeding.[5] As a result, the more efficient course is to allow both the SEP and GUIC dockets to conclude before changing course. We would note that the majority of the costs in the SEP rider are related to the on-going revenue requirement associated with the Cast Iron Pipe Replacement Project that concluded prior to the establishment of the GUIC, however if there is interest in consolidating the rider recovery we believe the Commission could issue an order point that directs the Company to include the costs under the GUIC Rider (as opposed to the SEP Rider) in its next GUIC Rider filing.

If the Commission believes the SEP Rider costs no longer belong in the SEP Rider, we ask for additional time to reset the course for recovery in our next GUIC Rider in November 2018. This will allow for more careful alignment of the two riders' components and allow the Department and the Commission a better opportunity for a thorough review and consideration of the statutes and costs.

D. ADIT

The Department makes specific recommendations regarding treatment of Accumulated Deferred Income Taxes (ADIT) should the Commission continue the SEP Rider. As the Department notes, the Company is seeking a Private Letter Ruling (PLR) from the IRS to resolve the issue of proper ADIT treatment in riders. The Department recommends that in the interim, the Company be required to update the

---

[4] Minn. Statute § 216B.1635
[5] Docket No. G002/M-16-891

SEP tracker with historical actual ADIT rather that a prorated ADIT balance as presented in the SEP Petition. We are concerned that removal of the ADIT pro-rate calculation on the 2016 historical actuals may be perceived by the IRS as a violation of the current tax normalization rules. Unlike the Company's other riders which use a calendar year test period, the SEP Rider uses a split-year test period. Our understanding of the IRS tax code is that proration is required during the full test period. The SEP Rider uses a test year that runs from July to the following June. Proration of the 2016 and early 2017 historic months is needed because the test period is still in progress. This is different than the decisions made in the Company's RES and TCR Riders where the Commission ordered the use of actual historic ADIT balances at the conclusion of the riders' test period. Until we have more clear guidance from the IRS on this issue, there remains risk of a normalization violation. The inherent risk of losing the ability to take advantage of accelerated depreciation to the Company and ratepayers as a whole far exceeds the $3,581 revenue requirement impact in the SEP proceeding. Once the PLR is received and evaluated, the appropriate updates, if any, to the tracker can be made at that time and any impacts will be captured in the true-up determination.

E. Capital Structure and Return on Equity

The Company does not feel it is appropriate to base the ROE in this filing on a recommendation of the Department from a separate open docket, in which the Company has provided testimony supporting a different ROE and the Commission has yet to make a final determination. If the Commission wants the Company to provide documentation supporting an appropriate ROE, it could direct the Company to do so in a future SEP rider filing, just as it did for the GUIC rider.

If the Commission agrees with the Department that the Company should use the capital structure approved in Docket No. E002/GR-13-868 to calculate the SEP Rider revenue requirements, it is appropriate to also include the associated debt costs approved in that docket as well.

F. Impact of DOC's Proposed Updates to Revenue Requirement Calculation

The impact of the Department's recommended adjustments to the calculation of the SEP Rider revenue requirement is a noted in the table below:

DOC Recommendation	Revenue Requirement Impact	Rate Factor Impact
ROE at 9.50%	($81,631)	($0.000094)
No ADIT Proration on 2016 Actuals	($3,581)	($0.000005)
Last Authorized Capital Structure (Docket E002/GR-13-868)	($1,042)	($0.000002)
Combination of all three recommendations	($86,236)	($0.000099)

We will provide updated schedules in a compliance filing to reflect any changes to our proposed revenue requirement calculation that is approved by the Commission.

G. RA Costs

As of the date of this filing, the Governor has not acted on the Energy Omnibus Bill, S.F. No. 1456, which extends the assessment by one year to 2018. The Company agrees that if the June 30, 2017 expiration date stated in Minn. Stat. § 216B.62, Subd. 3b. is not extended, the RA costs should be removed from the SEP Rider. The Company will file a brief supplement when the Governor acts on the Energy Omnibus Bill, or address this issue at the Commission's open meeting on the SEP rider.

H. Other Administrative Updates

The Department recommended the Company continue to provide prior year data on Attachment B which was not included in the initial petition for this year's SEP Rider. We removed the prior years' data from Attachment B in an attempt to make the document easier to read and analyze by focusing on the periods that impact the current request. We regularly remove prior years' data from rider schedules to make room for additional future years' data. If the Department would prefer we continue to include this historical data on Attachment B to ease their review, we agree to do so in future SEP Rider filings.

Also at the Department's recommendation, we agree to update the proposed customer notice to match the final bill message approved by the Commission in their notice issued on May 25, 2016 in Docket No. G002/M-16-206. The message below reflects the last-approved language:

> *We have updated the Resource Adjustment line item on your bill to reflect changes in the State Energy Policy (SEP) portion of the Resource Adjustment, which recovers costs for cast*

iron pipe replacement and to support State energy efficiency and conservation policy. The natural gas SEP portion of the Resource Adjustment increased to $0.002103 per therm.

We will consult the Consumer Affairs Office on the final bill message in this docket.

CONCLUSION

Regardless of where the Cast Iron Pipe Replacement Project costs are recovered, these costs were prudently incurred and were important for public safety. We respectfully request that the Commission approve our SEP Petition as originally filed.

Dated: May 26, 2017

Northern States Power Company

CERTIFICATE OF SERVICE

I, Lynnette Sweet, hereby certify that I have this day served copies of the foregoing document on the attached list of persons.

xx by depositing a true and correct copy thereof, properly enveloped with postage paid in the United States mail at Minneapolis, Minnesota

xx electronic filing

DOCKET NO. G002/M-17-174

Dated this26th day of May 2017

/s/

____

Lynnette Sweet

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_17-174_M-17-174
Christopher	Anderson	canderson@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022191	Electronic Service	No	OFF_SL_17-174_M-17-174
Alison C	Archer	aarcher@misoenergy.org	MISO	2985 Ames Crossing Rd Eagan, MN 55121	Electronic Service	No	OFF_SL_17-174_M-17-174
Mara K	Ascheman	mara.k.ascheman@xcelenergy.com	Xcel Energy	414 Nicollet Mall FL 5 Minneapolis, MN 55401	Electronic Service	No	OFF_SL_17-174_M-17-174
James J.	Bertrand	james.bertrand@stinson.com	Stinson Leonard Street LLP	150 South Fifth Street, Suite 2300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_17-174_M-17-174
Carl	Cronin	Regulatory.records@xcelenergy.com	Xcel Energy	414 Nicollet Mall FL 7 Minneapolis, MN 554011993	Electronic Service	No	OFF_SL_17-174_M-17-174
Jeffrey A.	Daugherty	jeffrey.daugherty@centerpointenergy.com	CenterPoint Energy	800 LaSalle Ave Minneapolis, MN 55402	Electronic Service	No	OFF_SL_17-174_M-17-174
Ian	Dobson	ian.dobson@ag.state.mn.us	Office of the Attorney General-RUD	Antitrust and Utilities Division 445 Minnesota Street, 1400 BRM Tower St. Paul, MN 55101	Electronic Service	No	OFF_SL_17-174_M-17-174
Ian	Dobson	Residential.Utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_17-174_M-17-174
Emma	Fazio	emma.fazio@stoel.com	Stoel Rives LLP	33 South Sixth Street Suite 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_17-174_M-17-174

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 280 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_17-174_M-17-174
Todd J.	Guerrero	todd.guerrero@kutakrock.com	Kutak Rock LLP	Suite 1750 220 South Sixth Street Minneapolis, MN 554021425	Electronic Service	No	OFF_SL_17-174_M-17-174
Sandra	Hofstetter	sHofstetter@mnchamber.com	MN Chamber of Commerce	7261 County Road H Fremont, WI 54940-9317	Electronic Service	No	OFF_SL_17-174_M-17-174
Michael	Hoppe	il23@mtn.org	Local Union 23, I.B.E.W.	932 Payne Avenue St. Paul, MN 55130	Electronic Service	No	OFF_SL_17-174_M-17-174
Alan	Jenkins	aj@jenkinsatlaw.com	Jenkins at Law	2265 Roswell Road Suite 100 Marietta, GA 30062	Electronic Service	No	OFF_SL_17-174_M-17-174
Richard	Johnson	Rick.Johnson@lawmoss.com	Moss & Barnett	150 S. 5th Street Suite 1200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_17-174_M-17-174
Mark J.	Kaufman	mkaufman@ibewlocal949.org	IBEW Local Union 949	12908 Nicollet Avenue South Burnsville, MN 55337	Electronic Service	No	OFF_SL_17-174_M-17-174
Thomas	Koehler	TGK@IBEW160.org	Local Union #160, IBEW	2909 Anthony Ln St Anthony Village, MN 55418-3238	Electronic Service	No	OFF_SL_17-174_M-17-174
Michael	Krikava	mkrikava@briggs.com	Briggs And Morgan, P.A.	2200 IDS Center 80 S 8th St Minneapolis, MN 55402	Electronic Service	No	OFF_SL_17-174_M-17-174
Douglas	Larson	dlarson@dakotaelectric.com	Dakota Electric Association	4300 220th St W Farmington, MN 55024	Electronic Service	No	OFF_SL_17-174_M-17-174

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Pam	Marshall	pam@energycents.org	Energy CENTS Coalition	823 7th St E St. Paul, MN 55106	Electronic Service	No	OFF_SL_17-174_M-17-174
Andrew	Moratzka	andrew.moratzka@stoel.com	Stoel Rives LLP	33 South Sixth St Ste 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_17-174_M-17-174
David	Niles	david.niles@avantenergy.com	Minnesota Municipal Power Agency	220 South Sixth Street Suite 1300 Minneapolis, Minnesota 55402	Electronic Service	No	OFF_SL_17-174_M-17-174
Richard	Savelkoul	rsavelkoul@martinsquires.com	Martin & Squires, P.A.	332 Minnesota Street Ste W2750 St. Paul, MN 55101	Electronic Service	No	OFF_SL_17-174_M-17-174
Ken	Smith	ken.smith@districtenergy.com	District Energy St. Paul Inc.	76 W Kellogg Blvd St. Paul, MN 55102	Electronic Service	No	OFF_SL_17-174_M-17-174
Ron	Spangler, Jr.	rlspangler@otpco.com	Otter Tail Power Company	215 So. Cascade St. PO Box 496 Fergus Falls, MN 565380496	Electronic Service	No	OFF_SL_17-174_M-17-174
Byron E.	Starns	byron.starns@stinson.com	Stinson Leonard Street LLP	150 South 5th Street Suite 2300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_17-174_M-17-174
James M.	Strommen	jstrommen@kennedy-graven.com	Kennedy & Graven, Chartered	470 U.S. Bank Plaza 200 South Sixth Street Minneapolis, MN 55402	Electronic Service	No	OFF_SL_17-174_M-17-174
Eric	Swanson	eswanson@winthrop.com	Winthrop Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_17-174_M-17-174

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Lisa	Veith	lisa.veith@ci.stpaul.mn.us	City of St. Paul	400 City Hall and Courthouse 15 West Kellogg Blvd. St. Paul, MN 55102	Electronic Service	No	OFF_SL_17-174_M-17-174
Daniel P	Wolf	dan.wolf@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_17-174_M-17-174