MINNESOTA
PUBLIC UTILITIES COMMISSION

Staff Briefing Papers – Volume I (Financial Issues)

Meeting Date	May 23 and May 24, 2023	Agenda Item 1**

Company	Northern States Power Company d/b/a Xcel Energy (Xcel, Company)
Docket No.	E-002/GR-21-630 **In the Matter of a Petition of Northern States Power Company, d/b/a Xcel Energy, for Authority to Increase Rates for Electric Service in the State of Minnesota**
Issues	Should the Commission adopt the ALJ Report's financial issues recommendations?

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I. DISPUTED FINANCIAL ISSUES

A. Sherco Unit 3 and King Coal Plant Depreciation

Staff: James Worlobah

1. Issue

Should the Commission approve Xcel Energy's proposal to, beginning in 2024, accelerate depreciation lives for Sherco Unit 3 and King Coal plants?

2. Initial Summary

The remaining life of a power plant determines the amount of depreciation expense that is included in rates each year. In its initial filing, Xcel proposed no changes to the remaining lives for the Monticello Nuclear Generating Plant (MNGP), Sherburne County Generating Station Unit 3 (Sherco 3), or Allen S. King Generating Plant (King). In its Direct Testimony, the Department recommended extending the remaining life of MNGP because of Xcel's plan to seek relicensure of the plant. In Rebuttal, Xcel agreed to extend MNGP's remaining life, which would reduce rates in this case, but also proposed to accelerate the remaining lives of Sherco 3 and King, which would increase rates in this case. The parties disagree about whether Xcel's proposal related to Sherco 3 and King is reasonable.

3. Xcel Energy – Direct

Xcel stated that it is in the process of extending the life of the Monticello nuclear generating station from 2030 to 2040 and added that, if the extension were approved and implemented as of January 1, 2022, depreciation decrease $44 million in 2022.[1]

Xcel also proposed changes to the accounting lives of Sherco Unit 3 and the King plant. The Company stated that Sherco Unit 3 has an approved accounting end of life date of December 31, 2034, while the King plant has an approved accounting end of life date of June 30, 2037. Xcel however asserted that it has proposed early retirements for both facilities in its Integrated Resource Plan (IRP); in which Sherco Unit 3 would retire at the end of 2030 and King would retire at the end of 2028.[2] The Company proposed accelerating the accounting remaining life of the facilities to match their retirement dates. The Company stated that, if the early retirements were approved and implemented as of January 1, 2022 as part of this rate case, accelerating the remaining lives to match the new retirement dates would increase annual depreciation expense by $10 million for Sherco Unit 3 and $33 million for King in 2022.[3]

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1 Moeller Direct, at 13-14, 38.

2 *Id,* at 39, 2-4. (The Commission later issued an Order approving Xcel's IRP, Docket No. E-002/RP-19-368 on April 15, 2022).

3 *Id*.

4. Department of Commerce – Direct

The Department stated that, in Xcel's 2020-2034 Integrated Resource Plan (IRP) filing,[4] the Company proposed a license extension at Monticello from 2030 to 2040 and noted that the Commission recently approved the 10-year extension for the Monticello nuclear decommissioning accrual.[5] The Company reportedly filed an application with the Commission for a certificate of need (CN) to construct additional storage capacity for the spent fuel needed to operate the plant for another 10 years.

The Department added that the Company did not agree the depreciation life of Monticello by 10 years in the current rate case because it has not received regulatory approvals necessary to extend Monticello's life.

The Department attested that in the mid-2000s, the Department recommended a similar 10-year depreciation life extension for the Prairie Island nuclear plant. The Department and other parties proposed the Commission set depreciation expense for Prairie Island assuming the nuclear operating licenses would be extended for 10 years, resulting in a 10-year plant life extension. This would partially recognize the depreciation expense reduction all parties expect to occur but would hedge against the possibility that the license extension would be denied. In that proceeding, the Department and other parties pointed out that the Commission took similar approach in two cases involving the decommissioning of Xcel's Monticello and Prairie Island nuclear plants and for dealing with unused nuclear fuel at plant closure. In both cases, applications for 20-year license extensions were pending, and the Commission set accrual rates assuming the 10-year license extensions.[6]

5. Xcel Energy – Rebuttal

Xcel stated that the Company plans to seek an extension of the Monticello operating life from the Nuclear regulatory Commission (NRC) in 2023. Furthermore, because the Commission had not issued a decision on the IRP when this case was filed and because the Company has not received all necessary approvals to allow the plant to operate for an additional ten years, the Company did not extend the depreciation life of Monticello in its revenue requirements in direct testimony. The Company agreed to extend Monticello's depreciation life for ten years but only in conjunction with other depreciable life adjustments.[7]

Xcel stated that it is currently assessing early retirements for both Sherco Unit 3 and the King coal plants. The proposed early retirement of these units would increase depreciation expense at a level close to the reduction in depreciation expense created by the extension of the Monticello nuclear plant. Xcel therefore proposed to address all of these life changes to avoid a

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4 Docket No. E-002/RP-19-368.

5 Ex. DOC – 21 at 6-7, 69 (Campbell Direct)

6 Campbell Direct, at 70, 3-14.

7 Halama Rebuttal, at 16, 22-23.

reduction in depreciation in this case followed by a large increase in the next case.[8] As a result, the Company asserted that it is making an adjustment for the Monticello life extension as recommended by the Department and is also making an adjustment increasing depreciation expense for the Sherco 3 and King plants, effective January 1, 2024.

The impact of the acceptance of the Department's proposal to extend Monticello's remaining life and increasing Sherco and King depreciation starting in 2024 is reflected in Table 1.

Table 1

Depreciation Rates of Monticello, Sherco, and King

Plant	Current Rates	Proposed with 2023 Transition	Proposed with 2024 Transition	2023 Inc./(Dec). vs Current	2024 Inc./(Dec). vs Current
A.S. King	$27,002,476	$ 65,255,983	$ 73,327,106	$ 38,253,507	$ 46,324,631
Sherco Unit 3	23,385,465	35,078,197	37,761,410	11,692,732	14,375,945
Monticello	92,572,287	40,565,384	40,167,755	(52,006,903)	(52,404,531)
Total	$ 142,960,227	$ 140,899,564	$ 151,256,272	$ (2,060,663)	$ 8,296,044

Table 1 shows that, based on the Company's proposal 2023 2023 depreciation expense is $2.1 million lower and 2024 depreciation expense is $8.3 million higher.[9] Allowing the Company to recover depreciation based on each unit's expected remaining life would prevent the Company from having to recover any remaining balance after a plant is retired.

The Company observed that reflecting changed depreciation lives for the three plants would be consistent with the Commission's recent approval of the Company's IRP.[10]

As an alternative, Xcel stated that the Commission could grant deferral of the incremental depreciation expense until the Company's next rate case and allow the Company to introduce a recovery proposal for those costs in that rate case.[11]

The Company noted that an updated annual decommissioning accrual amount of $21,571,110 was approved in Docket No. E-002/M-20-855, to reflect the expectation that MNGP will operate for an additional 10 years. This reduces the annual accrual by $4,105,047.[12]

[8] *Id*, at 17, 1-4.

[9] Moeller Rebuttal, at 5, 11-20.

[10] *Id*, at 6, 11-15.

[11] Halama Rebuttal, at 20.

[12] *Id*, at 7, 20-24.

6. Department of Commerce – Surrebuttal

The Department asserted that although Xcel's proposal to shorten Sherco 3 and King's depreciation lives will decrease the 2023 rate increase, rates in 2024 and future years will be higher.[13] Table 2 reflects the revenue impacts of the Monticello Nuclear Plant 10-year life extension versus the Sherco 3 and King Coal Plants shortened lives in 2023 and 2024.

Table 2: Revenue Requirement Impacts of Monticello nuclear plant 10-year life extension, and Sherco 3 and King coal plants shortened lives in 2023 vs 2024 ($ in millions)

	2022	2023	2024
Monticello		($34.518)	($33.352)
Sherco & King 2023 implementation		$29.021	$27.588
Sherco & King 2024 implementation			$35.092

Delaying the Sherco and King deprecation changes until 2024 results in a higher revenue requirement impact due to having one less year over which to spread the increased depreciation expenses. As a result, the Company's proposal will increase 2024 revenue requirements by $35.092 million and could remain at the highest amount until the Company files another rate case. Alternatively, if the Sherco & King depreciation changes are implemented in 2023, at the same time as Monticello, this results in a $29.021 million 2023 revenue requirement increase and a $27.588 million 2024 revenue requirement increase - a lower revenue requirement that captures the step down in rate base in 2023 for depreciation expense recorded in 2023.[14]

Additionally, the Department pointed out that, after receiving approval of the Company's IRP on April 15, 2022, Xcel should have filed supplemental direct testimony to address these significant changes which would have allowed interested parties to address this issue sooner. Furthermore, the Department asserted that shortening the lives of Sherco and King was not the only way to account for the early closure of the fossil fuel power plants to meet climate goals in rates. The Department noted that some alternative proposals include securitization, creating a regulatory asset at the end of the operable life but reducing the rate of return based on potentially lower risks, or retaining the remaining lives based on engineering lives and determining upon closure of the asset whether the utility should create a regulatory asset.[15] These potential options show the difficulty with Xcel raising this issue in rebuttal, as interested parties that may wish to advocate for these, or other alternatives do not have reasonable time to do so.

The Department outlined the pros and cons for the Commission's approval for the shortened depreciation lives and surmised that, if the Commission believes further rate mitigation is

[13] Campbell Surrebuttal, at 61, 19-21.

[14] Campbell Surrebuttal, at 62, 1-8.

[15] *Id*, at 63, 13-20.

needed in this rate case, leaving the deprecation lives for Sherco 3 and King at the current deprecation rates and not reflecting the operating lives approved in the IRP would reduce rates.[16] The Department recommended that, based on the facts and the record in this case, that the Commission approve both the Monticello nuclear plant's deprecation life extension and the Sherco 3 and King coal plants' shortened deprecation lives starting in 2023.
The Department further pointed out that the issue of fossil fuel generation is likely to come up again in the future and raises complex policy issues the Commission may want more time and a broader record to consider. To the extent the Commission adopts the Department's recommendation on this issue, the Department subsequently recommended the Commission makes clear it is basing the decision on the facts of this case only and should not be viewed as establishing a standard that would apply in future cases.[17]

7. Office of the Attorney General – Surrebuttal

The OAG noted that Xcel's proposed accelerated Sherco and King depreciation would dramatically increase the annual depreciation expense for these plants. The 2024 test year depreciation expense for these plants would more than double under the Xcel's proposal, from $50.4 million/year under current rates to $111.1 million/year.[18]

According to Xcel's most recent Annual Review of Remaining Lives and Depreciation Rates, the net remaining plant costs are $390.9 million for King and $276.9 million for Sherco 3, or $667.8 million combined.[19] Moreover, these amounts do not include the new capital spending that will be necessary to continue operating the plants through their remaining lives. Further, the OAG argued that Xcel has not provided any arguments or evidence to support its request for full recovery of all remaining plant costs. According to Minnesota Statutes section 216B.16, subdivision 6:

> *If the commission orders a generating facility to terminate its operations before the end of the facility's physical life in order to comply with a specific state or federal energy statute or policy, the commission may allow the public utility to recover any positive net book value of the facility as determined by the commission*.

The OAG observed that this statue could be interpreted to imply that recovery of the costs is an open policy question to be determined by the Commission. Additionally, the OAG argued that, even if it were appropriate to recover the full remaining plant balances from customers, the Commission would still need to determine how best to recover these costs. Xcel's proposal to accelerate King and Sherco 3's depreciation schedules is not the only—and likely not the lowest-cost—means of cost recovery. The OAG alluded to alternative financial techniques like securitization, which could be used to replace utilities' cost of capital with lower-cost debt.[20]

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16 *Id*, at pages 64-65, 6-19 and 1-10.
17 Id.
18 Twite Surrebuttal, at 2, 8-10.
19 *Id*, at 2, 12-17.
20 *Id*, at 4, 1-9.

The OAG stated that the questions of whether and how remaining plant costs are recovered deserve thorough and deliberate consideration. Since Xcel first raised this issue in rebuttal testimony, there is not time to adequately develop a record on these important issues in this docket. As such, the OAG recommended that the Commission reject Xcel's proposal and initiate a new docket to investigate whether and how the remaining costs for King and Sherco 3 should be recovered from customers. The OAG contended that the Company's argument that if regulatory consistency would indicate that, if Monticello's book life is extended, then King and Sherco 3's book lives should be reduced is not persuasive. Extending the life of a generating facility does not raise the same policy considerations as retiring a facility early. Implicit in a life extension is a finding that operation of the unit is in the public interest. In finding that King and Sherco 3 should be retired early, the Commission essentially determined that it is not in the public interest to continue operating the units.[21]

8. Xcel Large Industrials – Surrebuttal

XLI disagreed with Xcel's proposal to, beginning in 2024, shorten the King and Sherco 3's depreciable lives for "regulatory consistency" and increase its annual depreciation expense for these plants.[22] XLI noted that early retirement of the plants should not result in burdensome costs for customers. Accelerating recovery of Sherco 3 and King's unamortized balances would increase rates by $60.7 million annually. BSL SR Table 3 below provides the current and proposed annual depreciation expense for Sherco Unit 3 and King coal plants.

BSL SR Table 3
Current and Proposed Annual Depreciation for Sherco Unit 3 and King Coal Plants[17]

Unit	Current	Proposed	Increase
King	$27.0	$73.3	$46.3
Sherco Unit 3	$23.4	$37.8	$14.4
Total	$50.4	$111.1	$60.7

XLI observed that Minn. Stat. § 216B.16 subd. 6, states that, when the Commission is arriving at its decision to set just and reasonable rates, it is to consider various factors, "including adequate provision for depreciation of its utility property used and useful in rendering service to the public, and to earn a fair and reasonable return upon the investment in such property."[23] As such, XLI contended that, when the Sherco and King plants are retired and no longer used and useful, they should no longer earn a return on their unamortized balance. Finally, XLI recommended that the remaining plant balances for Sherco Unit 3 and King coal plants should be depreciated through the previously approved useful life of the plants (2040 and 2037,

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21 Twite Surrebuttal, at 5, 10-14.

22 LaConte Surrebuttal, at 17, 1-4.

23 *Id*, at 18, 9-22.

respectively), or $50.4 million annually per year.[24]

9. Xcel Large Industrials – Reply Brief and Proposed Findings of Fact, Conclusions of Law, And Recommendations

XLI proposed the Commission open an investigation to create a uniform policy for cost recovery of generation assets that are retired early.[25]

10. Administrative Law Judge Report

The ALJ Report concluded that a recommendation based on XLI's proposal is the most reasonable way to address the Sherco 3 and King depreciation expense amounts in this proceeding.[26] The Report noted that every party addressing this issue expressed concern about the rate impact of shortening the accounting lives of these plants. A related concern is that adjusting the Sherco 3 and King depreciation schedules to reflect their shortened useful lives would result in significant ratepayer impacts during the multiyear rate plan (MYRP).

The Report also cited that the reasonableness of depreciation schedules established in this proceeding depends upon the likelihood that the Commission would allow rate recovery of Sherco 3 and King depreciation expenses after the plants are no longer used and useful. The Report also noted that, generally, there is significant regulatory uncertainty with respect to post-retirement cost recovery for these specific plants and for generation assets. The Report related that the Commission has authority to allow post-retirement recovery in certain circumstances but has not articulated a policy that utilities can rely on and plan for. Consistent with its conclusion above, the ALJ presented the following findings:

> 224. The timing of the IRP Order relative to the course of this rate proceeding significantly limited the ability of the parties to make a full record on the wide range of alternatives for rate recovery. A fuller record could better allow the Commission to appropriately balance the interests of the utility and its ratepayers, as well as the intergenerational interests of current and future ratepayers.[27]
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> 226. In light of regulatory uncertainty about whether Xcel would be allowed to recover any undepreciated value after the plants are removed from service, and the abbreviated record on the issue in this proceeding, XLI's argument that its proposal preserves the status quo is persuasive. XLI's proposal would allow the Commission an opportunity to consider a fully developed record on the myriad options for post-retirement recovery, make reasoned decisions about the amount or duration of post-retirement recovery that would be just and

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[24] *Id*, at 19.

[25] XLI Reply Brief, at 18.

[26] ALJ Report, at 38.

[27] *Id*, at 39

> reasonable, and make adjustments to the depreciation schedules and the method of recovery accordingly.[28]
>
> 230. OAG's recommendation appears to be functionally similar to XLI's recommendation during the MYRP. It would have the same impact on the MYRP plan year revenue requirements. But it is silent about whether costs would be stranded after the plants are retired. XLI's proposal is more reasonable because it does not leave unresolved the amount of unrecovered amortized Sherco 3 and King costs that could be stranded upon the plants' retirement.[29]
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> 232. Enforcement of Minn. R. 7825.0500 (2021) to match the depreciation of the plants to their probable service life would unnecessarily impose an excessive burden upon ratepayers by increasing the revenue requirement in this rate case by approximately $30 million.[30]

In summary:

> 236. The Judge recommends that the Commission require that Xcel (1) not modify the accounting lives or depreciation schedule for Sherco 3 or King; and (2) when each plant is no longer used and useful, remove from rate base the costs associated with the plant but continue to recover the plant's depreciation expense, O&M expense, property taxes, and property insurance until fully recovered. The Judge further recommends that the Commission specify that the depreciation schedules and recovery method are subject to modification pending (1) an investigation into options for postretirement recovery for Sherco 3 and King, or (2) a generic investigation into the potential for post-retirement recovery for generation assets that are retired early.[31]
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> 237. Alternatively, if the Commission does not adopt the above recommendation, the Judge recommends that the Commission adopt the Department's proposal because: it allows the Company to reasonably recover its depreciation expenses; it avoids intergenerational inequity; it reasonably minimizes the increase to the 2024 rate base; and because the Monticello adjustment offsets the Sherco 3 and King revenue requirement increase.[32]

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[28] *Id*.

[29] *Id*, at 40

[30] ALJ Report, at 40.

[31] *Id*.

[32] *Id*.

11. Exceptions to ALJ Report

a. Minnesota Department of Commerce

The Department continued to object to Xcel's late proposal to reduce Sherco and King's remaining lives.[33]

Given the need to address this issue in a brief timeframe, the Department proposed to follow the traditional approach of setting depreciation life: using the utility's most recent approved Integrated Resource Plan (IRP) operating life to determine and match the facilities' "probable service life" under the Commission's rules. This approach reduces intergenerational subsidies by placing the costs on ratepayers that received power from the plants.[34]The Department maintained its position to reduce Sherco 3 and King's remaining lives beginning in 2023 which consistent with the ALJ's alternative recommendation.[35]

b. Office of the Attorney General

The OAG stated that the ALJ's recommendation not to modify the depreciation schedules and to remove the plants from Xcel's rate base is reasonable and supported by the record. The OAG asserted that this resolution protects ratepayers by not drastically increasing rates during the MYRP while also not requiring them to pay a return on coal plants that are no longer used and useful in providing utility service.[36]

The OAG cited that while it does not seek to disturb the Report's ultimate recommendation, the Commission should clarify two findings to better inform any future proceedings.

> First, the Commission should clarify that in the Company's Integrated Resource Plan ("IRP") proceeding, Xcel itself was the party that proposed the early retirement of Sherco and King. Any proceedings addressing the rate treatment of these facilities will necessarily address a balancing of the interests of the utility and its ratepayers. The fact that the plants are closing early at Xcel's request, as part of a plan that allows it to replace the lost generation with a substantial amount of Company-owned generation, impacts how the Commission should weigh those equities.
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> Second, the Commission should clarify that it did not "require Xcel to retire Sherco 3 and King to comply with Minn. Stat. § 216B.2422."32 Minn. Stat. § 216B.2422 is the statute that mandates the IRP process and outlines factors to consider. This statute required Xcel to have an IRP proceeding but did not mandate the early closure of Sherco and King. For these reasons, the

[33] Department's Exception, at 44-45.

[34] Department's Exception, at 45.

[35] *Id*, at 46.

[36] OAG's Exception, at 7.

Commission should modify Findings 197 and 223 as follows:[37]

> Mod. 197. After the Company filed Direct Testimony, the Commission issued its order in the IRP Docket, ordering the retirement of King in 2028 and Sherco Unit 3 in 2030, and authorizing a ten-year life extension for Monticello Nuclear Generating Plant at Xcel's request. The Commission's resource plan decision reduced the probable service life of Sherco 3 by ten years and King by nine years.
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> Mod. 223. The Commission ~~required Xcel~~ approved Xcel's request to retire Sherco 3 and King ~~to comply with~~ in a proceeding governed by Minn. Stat. § 216B.2422.

c. Xcel Energy

The Company stated that, as agreed to by parties, the ALJ Report recommended updating Monticello's and several wind energy facilities' depreciable lives. Those updates reduced, over three years, the MYRP revenue requirement by over $120 million. The Report however did not recommend recognizing the impact of the 2022 IRP Order as it relates to Sherco 3 and King.[38]

Xcel asserted that it agreed in rebuttal testimony to the Department's longer depreciation period for Monticello and proposed that the depreciable lives of Sherco 3 and King be shortened to align those retirement dates to the 2022 IRP Order.[39] Given the Commission's decision in the IRP ordering the retirement of Sherco 3 in 2030 and King in 2028, the lives of those plants should be shortened for depreciation purposes, in accordance with Commission rules and practice.

Xcel asserted that the Commission should not disregard the years of work put in by all parties in the IRP docket, which, from the initial filing, contemplated early retirement of these two assets and found that early retirement, including the associated accelerated depreciation, to be cost-effective for customers. The Company cited the ALJ finding, that adjusting the depreciable lives of Sherco 3 and King would have a significant impact on ratepayers. In presenting this finding, however, the Company declared that the ALJ ignored the fact that the rate reduction created by lengthening the depreciable lives of Monticello and the eight wind facilities (over $120 million over the term of the MYRP, as noted above) significantly exceeds the rate impact of shortening the lives of Sherco 3 and King.[40] The Company contended that the proposal to delay the effective date of the shortened lives by one year strikes the appropriate balance between rate mitigation and adherence to Commission rules and precedent.

Regarding the ALJ variance recommendation to the Commission's depreciation rules, the Company contended that it is subject to a later determination regarding the recoverability of those costs. The introduction of this uncertainty, according to Xcel, "imposes an excessive

[37] OAG's Exception, at 8.

[38] Xcel's Exception, at pages 9-10.

[39] *Id*, at 10-11.

[40] Xcel Exception, at 15.

burden on the applicant," in this case the Company. Furthermore, the Company contended that delaying the implementation of shortened depreciable lives for Sherco 3 and King to 2024, coupled with recognizing Midwest Independent System Operator (MISO) Planning Reserve Auction (PRA) capacity revenues and implementing a tracker for those revenues, enabled the Company to withdraw its interim rate increase request for 2023 – a request the Commission approved.[41]

In view of these reasons, Xcel requested that the Commission should order that the remaining lives for Sherco 3 and King be aligned with their operational lives as set forth in the Commission's 2022 IRP Order and should order implementation of this adjustment in 2024 to provide the Company's customers with rate relief in 2023. Alternatively, the Commission should approve deferral of these costs until Xcel Energy's next rate case and allow the Company to propose a regulatory asset or other mechanism to recover those remaining costs in that proceeding.

12. References to the Record

Xcel, Mark Moeller Direct, pp. 38-39.
Xcel, Mark Moeller Rebuttal, pp. 4-7.
Xcel, Benjamin Halama Rebuttal, pp. 16 & 17.
Xcel, Amy Liberkowski Rebuttal, pp. 6-7.
Xcel, Exceptions to ALJ, pp. 9-10, 11-12.
DOC, Nancy A. Campbell Direct, pp. 69-70.
DOC, Nancy A. Campbell Surrebuttal, pp. 61-66.
DOC, Exceptions to ALJ, pp. 44-46.
OAG, Andrew Twite Surrebuttal, pp. 2, 4-5.
OAG, Exceptions to ALJ, pp. 7-8.
XLI, Billie LaConte Surrebuttal, pp. 17-19.
XLI, Reply Brief, pp. 17-18.
ALJ Report, pp. 38, 39-40.

13. Staff Comments

Staff concurs with the parties that Xcel's proposed accelerated depreciation schedules for Sherco 3 and King plant in 2024 would result to increased annual depreciation expense and significantly cost ratepayers. Given the potential rate impact, the proposal should have been made early in the process to allow interested parties to address it, rather than waiting until rebuttal testimony. Additionally, as presented by the Department, shortening the lives of Sherco 3 and King was not the only way to account for the early closure of the fossil fuel power plants to meet climate goals in rates. There are alternative proposals that include securitization and creating a regulatory asset.

In view of the aforementioned, staff position on this issue aligns with the Judge's recommendations in findings: 236 and 237.

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[41] *Id*, at 17.

14. Decision Options

- Accelerate the remaining lives for Sherco Unit 3 and King beginning in 2024 as proposed by Xcel. (Xcel)
- Allow Xcel to defer Sherco and King's incremental depreciation expense until the Company's next rate case and allow the Company to introduce a recovery proposal for those costs in that rate case. (Xcel alternative)
- Accelerate the remaining lives for Sherco Unit 3 and King beginning in 2023 as proposed by the Department resulting in revenue requirement increases of $29.021 million in 2023 and $27.588 million in 2024. (DOC)
- Deny Xcel's request to change the remaining lives of Sherco Unit 3 and King. (OAG, XLI, ALJ)
- Order that, when Sherco Unit 3 and King are retired, the facilities should be removed from rate base but that Xcel may continue to recover depreciation expense, O&M expense, property taxes, and property insurance. (XLI, ALJ)
- Direct the Executive Secretary to open a new docket to examine Sherco 3 and King's remaining depreciation. (OAG)
- Direct the Executive Secretary to open a new docket to investigate ratemaking for retired generating facilities. (XLI, ALJ).

B. General Allocator – Full Time Equivalent (FTE) Hours

The issue will be discussed in the Class Cost of Service Volume.

C. Interchange Agreement Allocators

This issue will be discussed in the Class Cost of Service Volume.

D. Long-Term Incentive Compensation

Staff: Ashley Marcus

1. Issue

Should the Commission approve Long Term Incentive Compensation expense for the 2022 – 2026 test years?

2. Xcel Energy –Direct

Xcel offers a long-term incentive (LTI) compensation program based on total shareholder return (TSR LTI), achievement of environmental goals (environmental LTI), and employee retention to support long-term goals (time based LTI). Employees that receive LTI are in leadership positions (executives and non-executives) with a high level of influence on the Company's direction, strategy, and innovation. Executives receive all three LTI types while non-executives only receive time based LTI. Xcel is seeking 100% recovery of environmental and time based LTI. Xcel is not seeking recovery for TSR LTI. Table 4 shows the amounts included in the 2022 – 2024 test years.

Table 4 - Xcel Energy Requested LTI Expense ($M)[42]

	2022 Test Year	2023 Test Year	2024 Test Year	Total
Environmental LTI	$2.210	$2.218	$2.329	$6.757
Time Based LTI	$5.668	$5.960	$6.202	$17.830
Total LTI Expense	$7.877	$8.178	$8.531	$24.586

The Company stated that LTI is necessary to attract, retain and motivate experienced employees to maintain long term focus and leadership to serve the critical customer needs. Xcel further explained:[43]

> The Company can achieve its goal of attracting and retaining employees at higher levels within the Company and Xcel Energy only by offering LTI. The design of the LTI program and the levels of LTI offered to select groups of employees are market-based and require a greater level of commitment from these employees. Without this element of compensation, employees in these eligible positions would not have access to a competitively designed compensation package, the Company would be misaligned with market best practices regarding compensation plan design, as confirmed by the Willis Towers Watson Study (Exhibit___(RKL-1), Schedule 2), and the Company would be at a great risk of not being able to attract or retain employees in these positions.
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> Offering 100 percent of compensation to employees at this level through base pay would result in higher fixed costs for the Company and a negative impact on customer rates, as base pay is a fixed expense. Conversely, incentive pay (represented by AIP and LTI) is variable, based on several employee eligibility requirements and performance measures. If the Company removes these variable elements, we would also lose the motivational tool that incentive pay provides, and would not have the ability to vary employee compensation based on performance of the Company or the employee.

3. Department of Commerce – Direct

The Department requested the test year amounts for 2025 and 2026. Xcel noted that these years are not part of the MYRP and provided the requested information. Table 5 shows a summary of Xcel's five-year forecast for LTI.

Table 5 - Xcel Energy LTI Expense Five Year Forecast- MN Jurisdictional ($M)[44]

	2022 Test Year	2023 Test Year	2024 Test Year	2025 Test Year	2026 Test Year	Total
Total LTI Expense	$7.877	$8.178	$8.531	$11.292	$11.813	$47.691

[42] Ex. Xcel -54 at 49 (Lowenthal Direct)

[43] Ex. Xcel -54 at 49 (Lowenthal Direct)

[44] Ex. DOC-21 at 25 and NAC-D-5 (Campbell Direct)

The Department noted that LTI has never been approved in rate case proceedings.[45] LTI was denied for recovery by the Commission in previous rate cases because these programs are designed to primarily serve shareholder interests.

The Department also noted that Xcel already provides significant and comprehensive benefits to its employees which include AIP (or short-term incentive compensation), pension, 401(k) matching, health, dental, life insurance, long-term disability, retiree medical, and recognition awards, all of which are included for recovery from ratepayers in this proceeding.

The Department concluded that the request to include LTI expense in rates is unreasonable and recommended recovery of these expenses to be denied.

4. Xcel Large Industrials – Rebuttal

Xcel Large Industrials (XLI) supported the Department's recommendation to reject recovery of Xcel's proposed LTI expense.

5. Xcel Energy – Rebuttal

Xcel emphasized that the Department's recommendation did not consider the features or goals of the programs. Prior requests to include LTI were based on return on equity, dividends, shareholder returns and earnings. The current request excludes LTI recovery on financial goals. Instead, Xcel is requesting LTI recovery based on long-term environmental operational goals and retaining employees to work through the completion of these goals and other efficiencies. The Company believes this promotes outcomes that benefit customers. Xcel noted that, if environmental goals are not met, then employees earn less than the full amount of market-based compensation.[46] Xcel also noted that the Department's recommendation is at odds with Minnesota Statute § 216H.02, subd. 1:[47]

> It is the goal of the state to reduce statewide greenhouse gas emissions across all sectors producing those emissions to a level at least 15 percent below 2005 levels by 2015, to a level at least 30 percent below 2005 levels by 2025, and to a level at least 80 percent below 2005 levels by 2050.

To support long-term goals, Xcel uses incentive compensation to motivate employees to achieve these environmental goals and to remain with the Company for an extended period.

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45 *In re Northern States Power Co.,* Docket No. G-002/GR-92-1186 (September 1, 1993); *In the Matter of the Application of Minnesota Power for Authority to Increase Electric Service Rates in Minnesota,* Docket No. E-015/GR-08-415 (May 4, 2009); *In the Matter of the Application by CenterPoint Energy for Authority to Increase Natural Gas Rates in Minnesota,* Docket No. G-008/GR-08-1075 (January 11, 2010); and *In the Matter of the Application of CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas for Authority to Increase Natural Gas Rates in Minnesota,* Docket No. G-008/GR-15-424 (June 3, 2016).

46 Ex. Xcel-26 at 30 (Lowenthal Rebuttal).

47 *Id.*

6. Department of Commerce – Surrebuttal

The Department noted that providing efficient and reliable service at a reasonable cost is required by law and offering an employee financial incentive to comply is not appropriate. While the Department supports the reduction of greenhouse gas, the need for an additional employee incentive to be passed onto ratepayers is not supported. Additionally, Xcel continues to add significant renewables to its system and is already incented to do so to increase their rate base and overall return.[48] The Department believes Xcel has not shown that recovering LTI would help to achieve environmental goals that it is already meeting or exceeding. The Department continued to recommend disallowing LTI expense due to long standing practice of denying LTI in rates and the extensive list of employee benefits that are already included in rates.

7. Administrative Law Judge Report

The ALJ found that Xcel did not meet its burden to show that including environmental LTI costs in rate base to be just and reasonable. Xcel's environmental goals are required by law and Xcel has not demonstrated that passing these incentives to ratepayers would be reasonable. Xcel's time-based LTI remains tied to shareholder interests because the payouts depend on Company performance. The ALJ found:[49]

> 274. Xcel acknowledged that time-based LTI is "based on the end-of-the-three performance years of Company performance," and the actual award "is increased or decreased from the target amount based on a performance goal, which is total shareholder return relative to a peer group for each individual vesting year."[50]
>
> 275. Xcel's description of the time-based LTI program shows that it fundamentally remains tied to achieving shareholder goals. The Commission's rationales addressing prior LTI requests remain persuasive and applicable to Xcel's time-based LTI program.
>
> 276. The Judge recommends that the Commission deny Xcel's request to recover costs for environmental and time-based LTI compensation and adopt the Department's corresponding adjustment to Xcel's revenue requirement, as follows:

2022	2023	2024	2025	2026
($7,877)	($8,178)	($8,531)	($11,262)	($11,813)

48 Ex. DOC-23 at 16 (Campbell Surrebuttal)

49 ALJ Report at 47 - 48

50 Ex. Xcel-53 at 48 (Lowenthal Direct)

8. Exceptions to the ALJ Report

a. Xcel Energy

Xcel disagreed with the ALJ recommendation to deny environmental LTI and noted that environmental LTI is part of market-based compensation. Xcel further explained:[51]

> The ALJ has found that absent payment of environmental LTI, the employee is not receiving the entirety of their market-based compensation. As a result, environmental LTI can only benefit the customer because, if the environmental goals are not met, the relevant employee receives less than their total compensation. As noted by Company witness Ms. Lowenthal, incentive compensation aligns employee compensation with results and shows employees the connection between their performance and their pay. The Company's total compensation package, which, in some cases includes environmental LTI, is squarely in line with the market-based compensation practices of other utilities with similar revenues. The Commission should therefore allow recovery of environmental LTI, which is designed to further important policy goals and, when paid out, is a part of, not an addition to, market-based compensation targeted at the median of the market.

Xcel did not provide comments on time-based LTI in its Exceptions but continues to support its position as set forth in its Initial and Reply Briefs and its Proposed Findings, filed on January 27, 2023.

9. References to the Record

Xcel – 54 at 4, and 44-50 (Lowenthal Direct)
Xcel – 80 at 83 (Halama Direct)
DOC – 21 & 22 at 21-24 (Campbell Direct)
XLI – 5 at 3-4 (LaConte Rebuttal)
Xcel – 56 at 26-34 (Lowenthal Rebuttal)
Xcel – 82 at 31-32 (Halama Rebuttal)
DOC – 23 at 15-19 (Campbell Surrebuttal)
ALJ Report at 45 – 48
Xcel Exceptions to the ALJ Report at 42 - 45

10. Staff Comments

Staff supports the ALJ recommendation to reject Xcel's request to recover costs for environmental and time-based LTI compensation. Offering financial incentives for actions required by law is unreasonable and the Commission has a long-standing practice of denying recovery for LTI because it is designed to serve shareholder interests.

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[51] Xcel, Exceptions to the ALJ Report at 44 - 45

11. Decision Options

- Approve Xcel's MN Jurisdictional 2022-2024 long term incentive compensation expense of $7.877 million, $8.178 million, and $8.531 million, respectively. (Xcel)
- Deny Xcel's recovery request of MN Jurisdictional 2022-2024 long term incentive compensation expense of $7.877 million, $8.178 million, and $8.531 million, respectively. (Department, XLI, ALJ)

E. Annual Incentive Plan

Staff: Ashley Marcus

1. Issues

- Should the Commission approve Xcel Energy's annual incentive plan expense for the 2022 – 2026 test years?
- Should the Commission approve Xcel Energy's request to increase the annual incentive compensation cap from 15% to 20%?
- Should the Commission approve Xcel Energy's request to calculate the annual incentive plan payout in aggregate rather than by individual employee base salary?
- Should the Commission approve Xcel Energy's request to discontinue future annual incentive plan expense compliance filings and refunds?

2. Xcel Energy – Direct

Xcel's annual incentive plan (AIP) is short term incentive compensation based on individual performance goals and the Company's achievement of corporate key performance indicators. The incentive is a percentage of pay and is offered to exempt, non-bargaining employees. The approved cap for recovery is 15 percent of individual employee base salary.

Xcel is proposing to increase the cap for recovery to 20 percent of aggregate base pay, to eliminate AIP compliance filings, and to eliminate the AIP refund requirement. The 2022 – 2024 test year amounts are shown in Table 6.

Table 6 - Xcel Energy AIP Expense, MN Jurisdictional ($M)[52]

	2022 Test Year	2023 Test Year	2024 Test Year	Total
AIP Expense	$24.005	$24.750	$25.524	$74.279

The budget assumed a 20 percent cap and 100 percent target level payout. Xcel noted that it has been under-recovering for many years and the cap increase from 15 percent to 20 percent will move recovery closer to the amount it spends. Additionally, Xcel noted prior orders that

52 Ex. XCEL-54 at 4 (Lowenthal Direct)

approved higher caps[53] and that the recent setting of a 15 percent cap on AIP has largely been the result of settlements rather than fully litigated rate cases.

Xcel noted that compensation structure has changed since the original order in the early 1990s.[54] At that time, the Commission approved a 15 percent cap on base compensation and established compliance filing and refund requirements to account for amounts paid, amounts earned but not paid, and an evaluation of the plan's success. AIP is a component of market-based compensation and is critical to attract and retain talent. It is not a bonus and should be treated as a program or project expense. Xcel continuously spends more AIP than budgeted. The Company agrees that recovery of AIP should be limited to the target opportunity level of 100 percent. Amounts earned above the target level will be paid by shareholders. Xcel believes there is little risk that customers will overpay compensation in rates with the proposed 20% base compensation cap and the 100 percent target level payouts. Xcel stated that its standards regarding the program's development and execution make the annual compliance filing obsolete. Xcel proposed eliminating the annual compliance filings and the associated refund.

Additionally, the annual compliance filing requires AIP payouts to be compared to individual employee salary and not in aggregate. Xcel disagreed with the approach and explained:[55]

> This additional calculation has and will continue to result in a reduction to the Company's recovery of actual expenses even that imposed by the AIP cap, unless all participants receive full target payouts. Administering the AIP in this manner, rather than an aggregate methodology, undermines this performance-based incentive program, because many individual employees will perform above or below their target levels.
>
> If an employee has an AIP target-level equal to the restricted cap, each dollar related to performance above or below that specific target amount is lost to the Company through rate recovery. The individual-level AIP calculation has contributed to the Company's continued under-recovery of this critical compensation expense, which was approved in customer base rates.

3. Department of Commerce – Direct

The Department requested the test year amounts for 2025 and 2026. Xcel noted that these years are not part of the MYRP and provided the requested information. Table 7 shows a summary of Xcel's five-year forecast for AIP.

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[53] Ex. XCEL-54 at 35 (Lowenthal Direct) – Minnesota Power Docket No. E015/GR-16-664 (2018), CenterPoint Energy Docket No. G008/GR-15-424 (2016), and Xcel Energy Docket No. E002/GR-92-1185 (2011).

[54] September 29, 1993 Order and January 14, 1994 Order After Reconsideration, Docket No. E002/GR92-1185.

[55] Ex. XCEL-54 at 41 (Lowenthal Direct)

Table 7 - Xcel Energy AIP Expense Five Year Forecast - MN Jurisdictional ($M)

	2022 Test Year	2023 Test Year	2024 Test Year	2025 Test Year	2026 Test Year	Total
AIP Expense	$24.005	$24.750	$25.524	$26.236	$27.025	$127.540

The Department noted that the 15 percent cap on employee base salary is consistent with the approved percentage in the recent rate cases for Xcel[56] and CenterPoint.[57] The Commission denied prior requests to increase the AIP cap because shareholder interests were integrated in AIP by including earnings per share as a component of payouts and a large percentage of Xcel executive and officer pay comes for incentive compensation. As mentioned in the recommendations for LTI, Xcel already included an extensive list of benefits for recovery from ratepayers in this proceeding. Compliance filings have identified that Xcel has historically paid less than what's recovered in rates resulting in customer refunds[58] and eliminating this mechanism will negatively impact ratepayers.

Additionally, the Department disagreed with Xcel's request to calculate AIP at the aggregate level rather than the individual level. EPS is a component of AIP and incentive compensation can be 30 percent or more of an individual's base salary which aligns employee interests with shareholders rather than ratepayers.

The Department recommends a 15 percent cap on an individual employee basis and a 100 percent target level payout. The recommended adjustments are shown in Table 8 below.

Table 8 - Xcel Requested AIP Compared to DOC Recommendation
MN Jurisdictional ($M)

	2022 Test Year	2023 Test Year	2024 Test Year	2025 Test Year	2026 Test Year
Xcel Requested - 20% Recovery Cap	$24.005	$24.750	$25.524	$26.236	$27.025
DOC Recommendation - 15% Recovery Cap	$22.878	$23.589	$24.327	$25.004	$25.756
DOC Adjustment	$1.127	$1.161	$1.197	$1.232	$1.269

4. Xcel Large Industrials – Direct

XLI stated that ratepayers should not fund incentives beyond the currently approved 15 percent cap of aggregate pay.

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[56] Ex. DOC-21 at 30 (Campbell Direct) - See several prior Xcel Energy general rate cases including MPUC Docket Nos. E002/GR-12-961, E002/GR-13-868, E002/GR-15-826.

[57] Ex. DOC-21 at 30 (Campbell Direct) - *In re Appl. by CenterPoint Energy Res. Corp. d/b/a CenterPoint Energy Minn. Gas for Authority to Increase Natural Gas Rates in Minn.,* MPUC Docket No. G008/GR-21-435, SETTLEMENT AGREEMENT at 13 (March 14, 2022).

[58] Ex. DOC DOC-21 at 34 (Campbell Direct) - Docket No. E,G002/M-20-516 and Docket No. E002/M-22-254

5. Xcel Energy – Rebuttal

Xcel responded to XLI by noting that AIP is currently capped at 15 percent of individual pay.

Xcel indicated that the Department did not consider other percentage caps as alternatives and did not respond to the under-recovery issue with the 15 percent cap. Xcel noted that the merits of the 15 percent cap has not be addressed for decades. Xcel stated, "it is asking for an increase in the cap in recognition of its historic under-recovery of these expenses as well as the significant changes to the use of incentive since the Commission examined this issue in 1993 and 1994."[59]

Xcel continued to request AIP to be calculated on an aggregate rather than individual basis for compliance filings. Xcel stated:[60]

> It is fair for intervenors and customers to want rates to reflect only compensation expenses that have actually been incurred. Using an aggregate methodology upon payout meets this goal, ensuring customers are only responsible for the incentive amount authorized in rates and any respective AIP cap. It also allows the Company to administer its compensation program without being penalized for effectively managing performance expectations through the compensation process. By contrast, the Company is penalized under the individual calculation upon payout for managing its incentive program in this way. While the Company would recover more of its incentive expense if it simply paid out AIP to each eligible employee at the target level, regardless of performance, this practice would not lead to exceptional levels of performance in the service of customers.

Additionally, Xcel requested the following changes to the compliance filing to be considered if the Commission continued to require reporting:[61]

- The amounts of AIP paid should be compared to the amount authorized in rates, without a requirement that the calculation be made with respect to each employee following payout.
- The Company may eliminate the calculation to determine whether it is under 105 percent of median overall compensation, as compensation has been at or below this level since the requirement was added.[62]
- The Company may eliminate other extraneous calculations related to breakdowns across business units, employee groups and varying AIP cap levels, as well as the respective allocations across business units.

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[59] Ex. XCEL-56 at 16 (Lowenthal Rebuttal)

[60] Ex. XCEL-56 at 20 (Lowenthal Rebuttal)

[61] Ex. XCEL-56 at 22 (Lowenthal Rebuttal)

[62] *In re Appl. of N. States Power Co. for Authority to Increase Its Rates for Elec. Serv. in the State of Minn.*, E002/GR-92-1185, Order after Reconsideration at 8 (January 14, 1994)

6. Department of Commerce – Surrebuttal

The Department noted that Xcel's claim of under-recovery only occurs when calculating AIP on an aggregate basis. Xcel has been issuing refunds to ratepayers due to over-recovery when calculating AIP on an individual basis.

The Department disagreed with the claim that the 15 percent cap had not been addressed for decades. As indicated in Direct Testimony, the Commission approved the 15 percent cap in recent rate cases for Xcel and CenterPoint.

Xcel proposed changes to its AIP compliance filing in Rebuttal Testimony. The Department noted these changes would have been better placed in Direct Testimony to give interested parties more time to evaluate the request.

The Department continued to recommend that the AIP compensation be limited to a 15 percent recovery cap, on an individual basis, assuming 100 percent payout, with compliance filings for refunds of the AIP compensation not paid out. Additionally, Xcel should provide support in their next AIP refund compliance filing for any requested reporting changes and ensure information needed to review the AIP refund compliance is provided.

7. Xcel Large Industrials – Surrebuttal

XLI noted that the incentive compensation recovered from ratepayers should not dictate the amount of incentive compensation offered to employees. Xcel's affordability triggers ensure the Company has adequate earnings to pay out incentives so additional recovery is not necessary. XLI further explained:[63]

> Before employees are awarded any incentive compensation for performance targets that benefit the company's operating goals, the company must achieve its affordability target. Employees are, thus, incented to first target EPS targets before receiving any incentive compensation. This benefits NSP first, and then it must pay incentive awards. Thus, employees have dual incentives of achieving financial goals and operating goals. The financial incentive offsets the need for ratepayers to pay a higher percentage of incentive compensation.

8. Administrative Law Judge Report

The ALJ supported Xcel's proposed 20 percent AIP recovery cap because the Commission approved the same recovery cap in the recent Minnesota Power rate case[64], compensation practices have evolved since the 1992 Order, and the 20% cap would still prevent individual

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[63] Ex. XLI – 6 at 16 (LaConte Surrebuttal)

[64] In Re: Appl. Of Minn. Power for Authority to Increase Rates for Elec. Serv. In Minn., E-015/GR-16-664, Findings of Fact Conclusions, and Order at 110 (Mar. 12, 2018)

employees from having their compensation too closely connected to shareholder interests.[65] However, the ALJ found that calculating the cap in aggregate rather than by individual employee was unreasonable and the Commission's refund requirements remain necessary. The ALJ found:[66]

> 294. The Judge recommends that the Commission:
>
> i. Approve Xcel's proposal to raise the cap on AIP compensation from 15% to 20%.
>
> ii. Continue to require that the cap apply at the individual-employee level; and require Xcel to refund to ratepayers unpaid amounts.
>
> iii. Deny Xcel's proposal to modify its AIP compliance filing requirements and adopt the Department's proposal to allow Xcel to propose and support compliance filing changes in its next AIP refund filing.

9. Exceptions to the ALJ Report

a. Xcel Energy

Xcel supported the ALJ recommendation to increase AIP recovery cap from 15 percent to 20 percent but disagreed with the recommendation that this cap be applied on an individual employee basis rather than by aggregate basis. Xcel stated that calculating the cap at an individual level exacerbated under-recovery and does not allow effective management of performance expectations.

b. Department of Commerce

The Department disagreed with the ALJ recommendation to increase the recovery cap of AIP from 15 percent to 20 percent. The Commission stated in its 1992 Order that the earnings-per-share threshold is an "improper transfer of risk, since ratepayers bear the risks (the costs of incentive compensation), and shareholders reap the benefits (increased earnings per share)."[67] The Department emphasized that Xcel continues to incentivize shareholder interests today. The ALJ noted that Minnesota Power was approved for a 20 percent recovery cap on AIP, but it is out of line with other Minnesota utilities that have a 15 percent recovery cap. The Department stated:[68]

> Setting a 15% cap on each employee's salary best balances the utilities' ability to use compensation as a tool to improve performance in ratepayer' interest while guarding against recognized perverse incentives inherent in compensation schemes that, like Xcel's, are driven by shareholder interests. Xcel's request to increase its cap for AIP

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[65] ALJ Report at 50, ¶ 289

[66] ALJ Report at 51

[67] *In re Appl. of N. States Power Co. for Auth. to Increase Rates for Elec. Serv. in the State of Minn.*, Docket No. E002/GR-92-1185, FINDINGS OF FACT, CONCLUSIONS OF LAW, & ORDER at 28 (Sept. 29, 1993)

[68] DOC Exception to the ALJ Report at 11

compensation would tilt this delicate balance in shareholder' favor to ratepayers' detriment.

The Department supported the ALJ recommendation to apply the recovery cap at the individual employee level and agreed it is unreasonable to allow Xcel to retain unpaid incentive compensation.

c. Xcel Large Industrials

XLI disagreed with the ALJ recommendation to increase the recovery cap of AIP from 15 percent to 20 percent. With an EPS affordability trigger in place, the true driver of AIP is Xcel's net income and not ratepayer benefits. XLI recommended the current recovery cap of 15 percent to be maintained.

10. References to the Record

Xcel – 54 at 4, and 20-44 (Lowenthal Direct)
Xcel – 80 at 83 and 136 (Halama Direct)
DOC – 21 & 22 at 28-36 (Campbell Direct)
XLI – 4 at 41-42 (LaConte Direct)
XLI – 5 at 2-4 (LaConte Rebuttal)
Xcel – 56 at 12-26 (Lowenthal Rebuttal)
Xcel – 82 at 30-31 (Halama Rebuttal)
DOC – 23 at 19-25 (Campbell Surrebuttal)
XLI – 6 at 15-16 (LaConte Surrebuttal)
ALJ Report at 48 – 51
Xcel Exception to the ALJ Report at 45 – 46

11. Staff Comments

Staff supports the Department and XLI's recommendations to cap Xcel recovery of AIP at 15 percent of individual employee salary. As mentioned by the Department, Xcel has paid refunds due to over-recovery of AIP when calculating the payout at an individual employee level and the claim of under-recovery only happens when calculating at an aggregate level. Adopting the ALJ recommendation to increase the AIP recovery cap to 20 percent at an individual employee level will increase over-recovery and, therefore, increase refunds to ratepayers.

Compliance filings and the associated refund offer the Commission the opportunity to evaluate the operation and performance of the incentive compensation plan. Staff supports the ALJ and Department's recommendation to continue the annual reporting and refunds.

12. Decision Options

<u>Recovery Cap</u>

- Order Xcel Energy to cap its recovery of annual incentive plan compensation expense at 20 percent of aggregate base pay and 100 percent target payout. (Xcel)
- Order Xcel Energy to cap its recovery of annual incentive plan compensation expense at

15 percent of individual base pay and 100 percent target payout. (Department, XLI)
- Order Xcel Energy to cap its recovery of annual incentive plan compensation expense at 20 percent of individual base pay and 100 percent target payout. (ALJ)

Test Year Expenses
- Approve Xcel's 2022-2024 MN jurisdictional annual incentive plan compensation expense of $24.005 million, $24.750 million, and $25.524 million, respectively. (Xcel, ALJ)
- Approve Xcel's 2022-2024 MN jurisdictional annual incentive plan compensation expense of $22.878 million, $23.589 million and MN jurisdictional and $24.324 million, respectively resulting in 2022-2024 revenue requirement reductions of $1.127 million, $1.161 million and MN jurisdictional and $1.197 million. (Department, XLI)
- Approve Xcel's 2025-2026 MN jurisdictional annual incentive plan compensation expense of $25.004 million and $25.756 million, respectively. (Department, XLI)

Compliance Filings
- Order Xcel to discontinue the annual compliance filings and associated refund requirement. (Xcel)
- Order Xcel Energy to continue the annual compliance filings evaluating the operation and performance of its incentive compensation plan with the following changes:
    - The amounts of AIP paid should be compared to the amount authorized in rates on an aggregate level.
    - Eliminate the calculation to determine whether it is under 105 percent of median overall compensation.
    - Eliminate calculations and breakdowns across business units, employee groups and varying AIP cap levels, as well as the respective allocations across business units. (Xcel alternative)
- Order Xcel to continue the annual compliance filings evaluating the operation and performance of its incentive compensation plan and the associated refund with no changes to reporting requirements. (Department, ALJ)
- Order Xcel to provide support in its next annual incentive compensation compliance filing for any requested reporting changes. (Department, ALJ)

F. Prepaid Pension Asset

Staff: James Worlobah

1. Issue

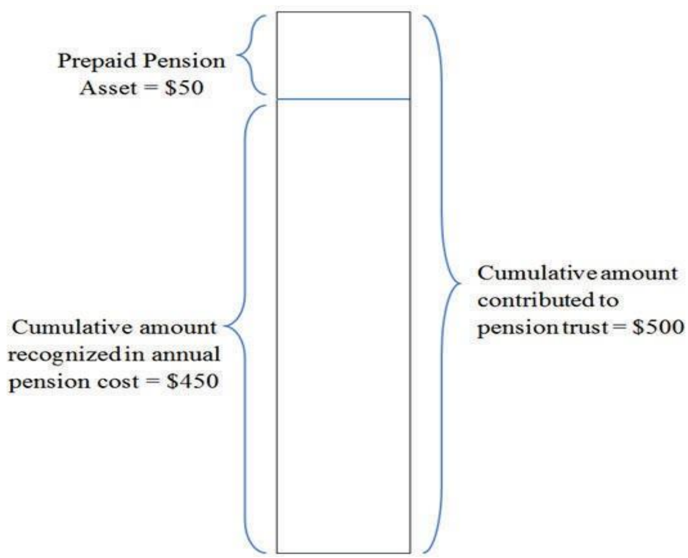
Should the Commission approve Xcel's proposal to include prepaid pension asset in rate base?

2. Xcel Energy –Direct

Xcel stated that the prepaid pension asset arises in connection with the Company's qualified pension plan. Over the life of the plan, if the cumulative expense amount is less than the cumulative contributions made by the Company, the Company has a prepaid pension asset. If the cumulative recognized expense exceeds the cumulative contributions to the plan, there is an unfunded liability. Based on the Company's accounting records, the Company asserted that it can quantify the total amount of actuarially calculated expense for each of those benefits over the entire period that the Company has offered that benefit.[69]

The Company also noted that, over the long run, pension contributions and pension expense will even out, but over the short and intermediate run there will almost certainly be differences, which are recorded as prepaid pension assets or pension liabilities.[70] Figure 9 depicts the prepaid pension asset as the excess contributions over the recognized pension expense.

Figure 9[71]



The Company noted that the contributions and expense are different in any given year due to the fact that the qualified pension expense calculation is governed by the Aggregate Cost Method (ACM) and FAS 87. These set forth the rules that, in order to have them comply with GAAP, companies must follow in determining their pension costs. In contrast, the contributions are driven by federal law requirements under the Employee Retirement Income Security Act (ERISA) and the Internal Revenue Code (IRC).[72] Although the expense and contribution calculations both use accrual methodologies, the assumptions, attribution methods, and periods of time over which the costs are required to be recognized are different and thus can often result in different annual amounts.[73] The Company pointed out that, except for the payment of benefits and plan expenses, federal law prohibits the withdrawal of any amounts from the pension trust fund.

69 Schrubbe Direct, at 60, 18-20.

70 *Id*, at 61, 20-23.

71 Schrubbe Direct, at page 62.

72 *Id*, at 62, 14-18.

73 *Id*, at 62, 18-22.

a. Ratemaking Treatment of Prepaid Pension Asset

Xcel asserted that prepayments by the utility are generally treated as an addition to rate base, whereas prepayments by customers are generally treated as a reduction to rate base.[74] Hence, the Company proposed to include its prepayments of pension expense as an addition to rate base and to treat the customers' prepayments as a reduction to rate base. Xcel asserted that, since the prepaid pension asset is larger than the unfunded liability, the Company has a net asset and therefore has an increase to rate base (net of ADIT). The Company proposed to earn a return on the asset at the Company's weighted average cost of capital (WACC).[75]

With regard to the rise of the Accumulated Deferred Income Taxes (ADIT) in connection with the prepaid pension asset or accrued unfunded liability, when the Company makes a contribution, it is allowed to deduct the contribution amount (up to IRS-imposed limits). That deduction shields income from taxes, which gives rise to deferred taxes. Thus, the amount by which the contributions in a particular year exceed the annual recognized cost for that year gives rise to a deferred tax liability. The opposite situation occurs when the annual cost recognized for a particular benefit exceeds the contribution, which give rise to a deferred tax asset.[76] Table 10 The Company shows the amount of benefit assets and liabilities included in the test year rate base and the amounts that must be offset by the ADIT. On a Minnesota electric jurisdictional basis, the net balance is approximately $95.4 million.

Table 10

Pension and Benefits Assets and Liabilities ($)

Rate Base Benefit (Short and Long-Term)	Non-Plant Rate Base Asset/(Liability)	Associated Accumulated Deferred Tax Asset/(Liability)	Net Rate Base Impact Asset/(Liability)
Prepaid Pension Asset	167,257,722	(46,834,002)	120,423,720
Retiree Medical - FAS 106	(25,472,046)	7,132,453	(18,339,593)
Post-Employment Benefits FAS 112	(9,283,712)	2,599,542	(6,684,171)
Total	**132,501,964**	**(37,102,007)**	**95,399,957**

The Company asserted that, because it represents shareholder capital held for future use and because it will reduce ratepayer costs in those years, the $95.4 million should be added to the Company's rate base.[77]

The Company noted that the prepaid pension asset's growth was driven by two factors: First,

[74] *Id*, at 63, 12-14.

[75] *Id*, at 63, 21-24.

[76] Schrubbe Direct, at 64, 13-17

[77] *Id*, at pages 64-65, 26-27 and 1-2.

the enactment by Congress of the Pension Protection Act of 2006. The Pension Protection Act also created penalties for plans that are underfunded, including an increase in Pension Benefit Guaranty Corporation (PBGC) premiums. Xcel further stated that the PBGC was established by Congress to insure pension benefits in the private sector. The second factor was the reduction in interest rates, which were caused by the Federal Reserve's efforts to stimulate the national economy in the wake of the 2008 recession.[78] The resulting drop in discount rates caused the Company's pension liabilities to become larger, which increased the amount of underfunding. The Company argued that it can have an underfunded pension plan at the same time it has a prepaid pension asset, because they measure different things. Xcel pointed out that underfunded pension plan occurs when the projected benefit obligation exceeds the fair value of the pension plan assets. A prepaid pension asset occurs when the cumulative cash contributions to the trust exceed the cumulative pension expense recognized under FAS 87, since the inception of the pension plan.

The Company stated that the net asset should be included in rate base for three separate and independent reasons. First, that it is a well-established regulatory principle for prepayments to be included in rate base, regardless of whether they are prepayments by the utility or by its customers. Second, having an adequately funded pension plan helps attract and retain the employees who provide safe and reliable electric service to customers. Third, customers are receiving the benefit of a return on the prepaid pension asset and; therefore, it is appropriate that the Company earn a return on its prepayment as well.[79]

Customers receive benefits through the annual pension cost determined under both the ACM (Xcel Plan) and FAS 87 (XES Plan), which includes an expected return on asset (EROA). The EROA percentage is multiplied by the value of the assets in the pension trust, and the product of that calculation is subtracted from the annual pension cost. Thus, the return on the prepaid pension asset reduces the annual qualified pension cost passed on to ratepayers on a dollar-for-dollar basis.[80] The pension trust fund balance that is multiplied by the EROA includes the prepaid pension asset. The Company pointed out that customers receive the benefit of the earnings on the entire amount of assets in the pension trust, not just the amount that has been recognized in annual pension cost. The return is reflected as a decrease in annual pension cost. Table 11 quantifies the reduction in annual pension expense that customers experienced as a result of the prepaid assets.

[78] Schrubbe Direct, at 66, 2-17.

[79] *Id*, at pages 67-68, 22-27 and 1-9.

[80] *Id*, at page 68, 13-19.

Table 11			
Amounts are NSPM Electric State of MN (2022 13-month Average)			
Pension Plan	**Prepaid Pension Asset Balance**	**EROA**	**Rate Reduction from Prepaid Pension Asset**
NSPM	167,257,722	6.60%	11,039,010
XES	32,364,435	6.60%	2,136,053
Total			**$13,175,062**

The Company observed that the earnings on the prepaid pension asset will reduce the Company's revenue requirement by nearly $13.2 million in 2022 and are expected to reduce the revenue requirement by a similar amount through 2024. Given that the reduction is passed through to customers on a dollar-for-dollar basis, Xcel asserted that its Minnesota retail customers realize a substantial benefit as a result of the prepaid pension asset.

Xcel noted that the disparity between the WACC (7.31%) and the EROA (6.60 %) does not disadvantage customers by the use of the WACC as the return on the prepaid pension asset for the following reasons: First, the Xcel pension plan balance on which customers earn a return is much larger than the balance on which they pay a return. Second, customers earn a return on the XES prepaid pension asset, but do not pay a return on that asset because it is not included in rate base for ratemaking purposes. Third, the prepaid pension asset allows the Company to avoid paying incremental PBGC premiums that would be added to the pension expense paid by customers in the absence of the prepaid pension asset.

The Company noted that the 6.60% EROA is applied to the full amount of the Xcel prepaid pension asset, which totals approximately $167.3 million. As shown in Table 11 above, that reduces the pension expense included in rates by more than $11 million per year. In contrast, customers pay a 7.31% return on only $95.4 million because the amount included in rate base reflects reductions for ADIT and the unfunded FAS 106 and FAS 112 liabilities. Thus, the balance on which customers earn a return is far larger than the balance on which they pay a return.[81] Furthermore, the Company stated that the thirteen-month average balance of the XES Plan net prepaid pension asset for Xcel's electric retail jurisdiction will be approximately $32.3 million in 2021. With an EROA of 6.60%, Xcel's electric retail customers will receive the benefit of approximately $2.1 million (electric retail) of return on an asset on which they pay no return. The Company noted that, in contrast, multiplying the Xcel prepaid pension asset of $95.4 million by the 7.31% WACC requested by the Company, results in a return of approximately $7.0 million on an electric O&M basis. Even when that amount is grossed up for taxes, the total amount paid by customers is $9.8 million, resulting to a net benefit of approximately $3.4 million, after payment of the WACC return on the net prepaid pension asset.[82]

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[81] Schrubbe Direct, at 71, 12-18.

[82] *Id*, at page 72, 8-20.

Xcel attested that its pension plan is currently underfunded, but that it would be further underfunded by $167 million without the prepaid pension asset. Additionally, the Company stated that, absent the prepaid pension asset, the PBGC premiums would increase to $3.3 million, on a Minnesota basis. As such, the Company repeated that the prepaid pension asset should be included in rate base; consistent with how other prepayments are treated, including prepayments by customers.

b. Commission Precedent on Prepaid Pension Asset

Xcel noted that in recent Minnesota Power, Minnesota Energy Resources Corp. (MERC), and Otter Tail Power Company (Otter Tail) rate cases, the Commission has excluded the utilities' prepaid pension assets from rate base and disallowed any return on those assets.[83] The Company submitted that the reasoning employed by the Commission in those cases is either mistaken or does not apply to Xcel. Xcel stated that the Commission rejected requests to include the utilities' pension and benefit-related assets and liabilities in rate base because:[84]

- The utility "recovers its allowable pension expense from ratepayers, and is not being denied recovery of this operating cost";
- The pension-plan assets and benefit obligations "go up and down depending on funding, market conditions, or amendments to the plan";
- The balances in the prepaid pension asset are "temporary, and fundamentally different than typical rate-based assets on which the Company earns a return on investment";
- The asset already earns a return in the form of investment returns; and
- It would be "impractical, if not impossible, to equitably separate the prepaid amount attributable solely to [the utility's] contributions from that attributable to ratepayer contributions and market returns."

The Company added that, as a matter of precedent, regulatory Commissions in Colorado, New Mexico, and Texas allow the Xcel Energy operating companies in those jurisdictions to include their prepaid pension assets in rate base and to earn a return on them.[85]

3. Department of Commerce – Direct

The Department submitted that Xcel proposed to include $167,257,722 in prepaid pension assets and ($46,834,002) in related ADIT balances in the test year for a net rate base impact of

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[83] In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Service in Minnesota, Docket No. E-015/GR-16-664, Findings of Fact, Conclusions and Order at 16 (Mar.12, 2018) (Minnesota Power Order); In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to Increase Rates for Natural Gas Service in Minnesota, Docket No. G-011/GR-15-736, Findings of Fact, Conclusions, and Order at 11 (Oct. 31, 2016) (MERC Order); In the Matter of Otter Tail Power Company for Authority to Increase Rates for Electric Service in Minnesota, Docket No. E-017/GR-15-1033, Findings of Fact, Conclusions, and Order at 25 (May 1, 2017) (Otter Tail Order).

[84] Schrubbe Direct, at page 77

[85] *Id*, at 84, 15-17.

$120,423,720.[86] The Department disagreed with the Company's first claim that all prepayments must be included in rate base, as the Commission has repeatedly denied the inclusion and recovery of pension assets in rate base; citing the MERC's 2015 rate case and Otter Tail Power's 2015 rate case.[87] In the MERC rate case, for example, the Commission stated:

> MERC recovers its allowable pension expense from ratepayers and is not being denied recovery of this operating cost. Further, as noted by the Department, pension-plan assets and benefit obligations go up and down depending on funding, market conditions, or amendments to the plan. The balances in the prepaid pension asset are temporary, and fundamentally different than typical rate-base assets on which the Company earns a return on investment.
>
> Nor does the Commission find the 2013 Xcel Energy rate case treatment of pension and other post-employment regulatory assets to be persuasive or precedential. As noted by the Administrative Law Judge, in the Xcel rate case the question of whether a company's pension asset is properly included in rate base was not specifically litigated by the parties.[88]

The Department agreed with the Company's second claim, that having an adequately funded pension plan may help attract and retain employees. However, as of December 31, 2021, the Company's Plan for the Minnesota electric jurisdiction is underfunded by $240 million.[89] Moreover, as explained by Xcel, the Department noted that the Employee Retirement Income Security Act (ERISA), the Pension Protection Act, and the Internal Revenue Code determine the minimum funding requirements for pension plans, not the Company or its shareholders.[90] Additionally, the Department referred to the Company's explanation that the funded status of its pension plan is separate from whether the Company has a prepaid pension asset because they measure different things.[91]

The Department disputed Xcel's disagreement with the Commission's rationale for denying pension assets and liabilities in rate base and argued that, unlike normal O&M expenses, pension expense is an actuarially determined expense where changes in things such as expected return rates, discount rates, and amortization of previous gains and losses can significantly impact pension expense in any given year. Similarly, unlike normal capital investments in tangible things, like transmission lines, the Company's prepaid pension asset is comprised of two components – actuarially determined pension expense and pension contributions. Both components can vary significantly year-over-year, depending on the

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86 Campbell Direct, at 41, 4-8.

87 *Id*, at page 42, 3-6.

88 In re Appl. of Minn. Energy Res. Corp. for Auth. to Increase Rates for Nat. Gas Serv. in Minn., Docket No. G-011/GR-15-736, FINDINGS OF FACT, CONCLUSIONS, & ORDER at 11–12 (Oct. 31, 2016).

89 Campbell Direct, at page 43, 9-12.

90 Ex. Xcel-___ at 32, 79-80 (Schrubbe Direct).

91 Ex. Xcel-___ at 67 & 75 (Schrubbe Direct).

assumptions used to calculate pension expense and the Company's decisions regarding pension contributions.

The Department also noted that the Company may choose to contribute more to its pension fund than required under the minimum funding requirements by ERISA, PPA, and IRS regulations, which can also have a significant impact on the prepaid pension balance in any given year.[92] Further, the Department agreed that changes in market value of pension plan assets and benefit obligations affect the funded status of the pension. Be as it may, the Department disagreed with Xcel's statement that changes in the market value of the pension plan assets and benefit obligations do not impact the prepaid pension asset.[93] The Department pointed out that the difference between market value of plan assets and the Present Value of Future Benefits (PVFB) determines pension expense. Since pension expense is used to determine the prepaid asset (i.e., the difference between pension expense and contributions), changes in market value can impact the prepaid asset. As such, the changes in the market value of pension assets and the PVFB can impact pension expense and the resulting prepaid pension asset.[94] As a result, the Department concluded that Xcel has not demonstrated the reasonableness of including a prepaid pension asset in rate base and recommended removal from rate base. Table 12 summarizes the recommendation's net reductions to rate base and annual revenue requirements.

Table 12: Non-Plant Assets & Liabilities, Avg. Net Rate Base & Rev Req ($ millions)

	2022	**2023**	**2024**	**2025**	**2026**
Non-Plant Assets & Liabilities	$132.4	$142.0	$162.5	$185.2	$204.0
ADIT	$37.1	$39.8	$45.5	$51.8	$57.1
Average Net Rate Base	$95.3	$102.2	$117.0	$133.3	$146.9
Total Revenue Requirement Adjustment	**($12.6)**	**($21.3)**	**($32.1)**	**($27.6)**	**($28.8)**

4. Xcel Large Industrials – Direct

Similar to Xcel and the Department, XLI explained what a prepaid pension asset (PPA) is, including how the cumulative difference between pension contributions and recognized pension expense create a prepaid pension asset or liability. Further, XLI stated that these amounts differ because the recognized pension cost is determined in two separate ways: the Aggregate Cost Method (ACM) and Financial Accounting Board Standard 87.[95] These methods

[92] Campbell Direct, at 47, 7-10.

[93] *Id*, at 47, 16-19.

[94] *Id*, at 48, 7-12.

[95] LaConte Direct, page 43, 6-10.

are used to calculate and recover the amount of money that will be necessary to satisfy Xcel's pension obligation to the employee over the course of an employee's career. 'XLI further stated that including the $95.4 million in rate base increases Xcel's revenue deficiency by $9.8 million.

The XLI further testified that Xcel should not earn a return on its proposed prepaid pension asset, because the PPA is determined using Generally Accepted Accounting Principal (GAAP), not on a ratemaking basis.[96] XLI asserted that, from a ratemaking perspective, customers' rates include Xcel's pension costs. Unlike the pension expense, the PPA is not an operating cost. As such, if Xcel should earn a return on it, then it must first be deemed a regulatory asset by the Commission. If it finds it appropriate for ratemaking purposes, I Commission may approve a regulatory asset, which reflects deferrals of operating costs for certain non-recurring expenses.[97] However, the Commission has not approved the PPA as a regulatory asset. As such, Xcel should not include it in rate base or use it to determine regulatory ratemaking recovery.[98]

XLI also stated that, in previous findings, the Commission rejected proposals to earn a return on the PPA because a utility must demonstrate that, among other requirements, the PPA was funded by investor capital rather than by either pension trust returns, or the funding recovered from ratepayers. A prepaid pension asset may also be created when the utility makes zero cash contribution, and the pension expense is negative. Additionally, if a PPA is created by zero cash contributions from shareholders and negative pension expense, this is the result of excess earnings on the pension trust and not due to investor contributions to the plan.[99] The XLI therefore recommended that the Commission reject Xcel's proposal to include the prepaid pension asset in rate base, which will decrease the Company revenue requirement deficiency by $9.8 million.

5. Xcel Energy – Rebuttal

Xcel repeated its proposal for inclusion of prepaid pension asset (PPA) in rate base and to earn a WACC return on the asset.

Xcel reiterated all the rationales cited in direct testimony and added that it would be inequitable to allow customers to benefit from the market returns associated with the prepaid pension asset while denying the Company an opportunity to earn a return on the asset, particularly since the Company contributed the amounts that are benefiting customers. Additionally, the Company argued that that recovery of the Company's annual pension expense, which is an Operation and Maintenance (O&M) expense, does not fully compensate the Company with regard to pension issues. This, according to Xcel, is because the recovery of just the annual pension expense, which is a pass-through expense, does not account for the fact that the Company's shareholders have advanced cash to fund the pension trust, creating the prepaid pension asset that benefits the Company's customers by reducing the annual pension

[96] *Id,* pages 44-45, 19 and 1.

[97] *Id*, at 45, 3-6.

[98] *Id*, at 45, 7-9.

[99] *Id*, at pages 45-46, 20-21 and 1-3.

expense.[100]

In response to the Department's quotes regarding the language from the MERC order justifying exclusion of the prepaid pension asset from rate base on the ground that “pension plan assets and benefit obligations go up and down depending on funding, market conditions, or amendments to the plan”, the Company countered that the rationale conflates two entirely separate things – the funded status of the pension trust and the prepaid pension asset. The funded status of the plan measures the difference between: (1) the pension plan’s accrued benefit obligations to plan beneficiaries and (2) the market value of the assets held by the pension trust. The prepaid pension asset is the difference between (1) the cumulative dollars that investors have contributed to the pension trust and (2) the cumulative annual pension expense included in rates on which the Company is proposing to include in rate base for investors to receive a return.[101]

Regarding the Department's reference to quote in the M’RC's Order, that "balances in the prepaid pension asset are “temporary, and fundamentally different than typical rate-based assets on which the company earns an investment,” the Company argued that all assets are "temporary" in the sense that they rise and fall as new investments are made and depreciation expense is recognized. The Company asserted further that it accounted for the changes in the prepaid pension asset balance by using a 13-month average, as it does for other balances that vary over the course of a year, such as materials and supplies.[102] The Company further disagreed with the Department's assertion that the prepaid pension asset is somehow different than other utility assets. Xcel asserted that it is required by ERISA and the Pension Protection Act to make contributions to the pension trust, just as it is required to make investments in physical assets to provide electric service. As such, the dollars contributed to the pension trust by investors are real out-of-pocket dollars as the dollars spent on physical assets and investors should receive a return on those dollars.

Furthermore, the Department’s rationale that customers' rates already include pension costs and that the prepaid pension asset is not an operating cost is contrary to Minnesota statute section 216B.16, subdivision 6, which allows a utility and its investors to recover both the O&M expenses and a return on their capital investment.[103] Xcel contended that disallowance is contrary to the standard ratemaking practice in which the party making a prepayment is entitled to a return on that prepaid balance.

Additionally, Xcel argued against the XLI’s assertion that, before the Company can earn a return on its prepaid pension asset, the Commission must first deem it a regulatory asset. The Company stated that the XLI cited no authority for the assertion. Moreover, the Company maintained that the argument is contradictory to the Commission's finding in Xcel's Docket No. 13-868, in which the Commission expressly found that "qualified pension asset and associated

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[100] Schrubbe Rebuttal, at 11, 9-18

[101] *Id,* at 12, 12-23.

[102] *Id,* at 14, 6-10.

[103] *Id*, at 27, 5-13.

deferred-tax amounts shall be included in rate base."[104]

Moreover, Xcel disagreed with XLI's assertion that if a prepaid pension asset "is created by zero cash contributions from shareholders and negative pension expense, this is the result of excess earnings on the pension trust and not due to investor contributions to the plan". Xcel contended that, because Xcel uses the ACM (Aggregate Cost Method) to calculate pension expense, none of the Company's prepaid pension asset is attributable to negative pension expense. The ACM method has a minimum expense provision of zero and therefore it cannot go negative. Consequently, the Company concluded that the entire prepaid pension asset is attributable to Company contributions and recommended that the Commission allow the prepaid pension asset to be included in rate base.

Alternatively, Xcel contended that, if the Commission excludes the prepaid pension asset from rate base, the Commission should also direct the Company to recalculate qualified pension expense without applying the expected return to the prepayment portion of the pension trust. That will increase the amount of pension expense included in rates, but it will avoid the inequity of customers earning a return on the Company's cash investment without paying a corresponding return on it.[105]

6. Xcel Large Industrials (XLI) –Rebuttal

The XLI maintained its recommendation for the Commission to disallow the prepaid pension asset from the test-year rate base, with the following revised revenue requirements:

Table 13
XLI Revised Revenue Requirement Impact of Removing the PPA from Rate Base
($Millions)

Year	Amount
2022	$12.6
2023	21.3
2024	32.1
2025	27.6
2026	$28.8

Source: NSP Response to DOC-1011, Att. B. The figures represent the impact of the removal of pension and benefit assets and liabilities from rate base.

[104] Schrubbe Rebuttal, at pages 27-28, 5-25 & 1-15

[105] *Id*, at 32, 1-7.

The revenue requirement was revised due to mistaken exclusion of the income tax related to the return, as well as the impact on the remaining years of the MYRP. XLI recommended that the Commission reject Xcel's proposal to include the PPA in rate base and earn a return on the proposed asset. As such, the Company's revenue requirement should be reduced by the amounts shown in Table 13 above for each year of the MYRP.

7. Department of Commerce – Surrebuttal

The Department noted that Xcel disagreed with its removal of the rate base components as well as the income tax components for prepaid pension assets and accrued liabilities in its calculation but did not provide any information or explanation.[106] The Department noted that it always attempts to include the related tax effects for any of its adjustments. The Department referenced to direct and rebuttal testimonies regarding the factors discussed to address Xcel's rebuttals on this issue. The Department concluded that Xcel has not demonstrated the reasonableness of including a prepaid pension asset in rate base and therefore maintained its recommendation to remove Xcel's prepaid pension asset from rate base.

8. Xcel Large Industrials (XLI) – Surrebuttal

XLI disagreed with Xcel's assertion to earn a return on its prepaid pension asset, because a utility is allowed to earn a return on their capital investment. XLI argued that prepaid pension assets (PPA) differ from a capital investment. Furthermore, it pointed out that PPA may vary year over year because the prepaid pension asset is determined based on actuarial assumptions regarding pension expense and pension contributions.[107]

9. Administrative Law Judge Report

The ALJ Report referenced the Company's assertion that the prepaid pension amount, reduced by the amount of unfunded retiree medical and other benefits and by accumulated deferred income taxes, are an asset that should be included in its rate base for which it should earn a return.[108]

The Report however recounted that the Department opposed Xcel's recommendation for several reasons. It noted that per the Department, the Commission has consistently denied requests to earn a return on a prepaid pension asset for other utilities; coupled with the fact that "repaid pension asset" is no longer part of Generally Accepted Accounting Principles (GAAP).[109] Moreover, as asserted by the Department, the ALJ recounted that:

> 308. Xcel's prepaid pension asset is fundamentally different than other prepaid assets, such as prepaid insurance expense. As the Commission has observed,

[106] Campbell Surrebuttal, at 26, 13-15.

[107] LaConte Surrebuttal, at 13, 9-11.

[108] ALJ Report, at 53.

[109] *Id*.

> "pension-plan assets and benefit obligations go up and down depending on funding, market conditions, or amendments to the plan. The balances in the prepaid pension asset are temporary, and fundamentally different than typical rate-base assets on which the Company earns a return on investment."[110]
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> 310. The Department's expert also explained that Xcel's request goes against current guidance from the Financial Accounting Standards Board (FASB) intending to address the outdated standard that allowed companies to show an asset or liability on the balance sheet that was different than the actual funded status of the pension plan. The Department's expert explained that because Xcel is seeking to represent a "prepaid pension asset" when there is actually a liability, this is problematic under the current FASB standard.

Additionally, the ALJ proceeded to highlight the recoverability of prepaid pension asset predicated primarily on investor contribution as follows:

> 312. A prepaid pension asset may be recoverable to the extent that a utility can demonstrate that the amounts to be included in rate base are not supplied by ratepayers or market returns on plan assets. Xcel has not met its burden to demonstrate that it would be reasonable to allow Xcel to place a prepaid pension asset into its rate base. Xcel has been allowed to recover its allowable pension expense from ratepayers, and its recovery of test-year pension expenses is uncontested in this proceeding. The prepaid pension asset is defined by outdated GAAP and FASB guidance, and to the extent its value is attributable to shareholder contributions, the contributions exceeded pension expense amounts approved for rate recovery. The Commission has not approved deferred accounting for such surplus contributions, and Xcel has not met its burden to justify approval for deferred accounting here.

The ALJ concluded that the Department has demonstrated that, because the value of the asset is determined in part by market gains and losses, there is doubt with respect to the source of the asset's value. Doubt must be resolved in favor of ratepayers.[111] Consequently, the Judge recommended that the Commission deny Xcel's proposal to include a prepaid pension asset in its rate base. Additionally, the Report also presented the following findings as a result of the above recommendation:

> 316. Xcel recommended that, if the Commission does not allow the prepaid pension asset to be included in rate base, the Commission should require the Company to recalculate its qualified pension expense without applying the expected return to the prepayment portion of the pension trust to reflect the revised pension expense in rates.

[110] In re Appl. of Minn. Energy Res. Corp. for Auth. to Increase Rates for Nat. Gas Serv. in Minn., MPUC Docket No. G-011/GR-15-736, Findings of Fact, Conclusions of Law and Order at 11 (Oct. 31, 2016) (eDockets No. 201610-126124-01) (MERC 2015 Rate Case Order); see Ex. DOC-21 at 48 (Campbell Direct).

[111] ALJ Report, at 54.

> 317. Because the qualified pension expense should be correctly calculated to reflect the exclusion, the Judge recommends that the Commission require the Company to recalculate its qualified pension expense without applying the expected return to the prepayment portion of the pension trust.

10. Exceptions to ALJ Report

a. Department of Commerce

The Department concurred with the ALJ's reasoning in recommending that the Commission adheres to its long-term practice of denying utility requests to earn a return on a prepaid pension asset. The Department however took exception to the ALJ's determination that Xcel should be permitted to recalculate its pension expense.[112] The Department contended that recalculating a pension expense is not a simple calculation arising from the ALJ's pension decision but that it is a complex undertaking that is often disputed in rate cases. Besides, Xcel requested recalculation for the first time in a post-hearing reply brief when the parties no longer had an opportunity to request discovery or address the issue in testimony or briefing.[113] The Department further contended that allowing Xcel to recalculate its pension expense, as the ALJ recommended, would violate Generally Accepted Accounting Principles (GAAP).[114] Moreover, the Department noted that permitting recalculation would set Xcel apart from all other Minnesota utilities.

The Department also pointed out that, in the agreed upon Issues Matrix, Xcel represented that pension expense was a resolved issue.[115] Consequently, the Department recommended that the Commission rejects the ALJ's recommendation to authorize Xcel to engage in questionable, non-GAAP recalculations at this late stage of a contested case with no record support.

b. Xcel Energy

The Company contended that the ALJ Report's adaptation of its alternative proposal is a recognition that the Company has provided contributions to the pension trust in excess of its annual pension expenses. Xcel proceeded to cite that the accounting standards governing pension costs require the application of an Expected Return on Assets (EROA) to the value of the assets in the pension trust (including any prepaid pension asset), which is then subtracted from the annual pension cost borne by customers.[116] Additionally, the Company contended that the prepaid pension asset reduces the Company's required Pension Benefit Guarantee Corporation (PBGC) premiums. Xcel asserted that these two factors resulted in net customer

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[112] Department Exception, at 11.

[113] On May 3, 2023, the Department filed a letter acknowledging that Xcel did initially discuss this issue in rebuttal; however, that acknowledgment does not change their position on this issue.

[114] *Id*, at 12.

[115] Department Exception, at 12.

[116] Xcel Exception, at 24.

benefits of approximately $7.6 million, due to the Company's excess contributions to the pension trust.

Xcel argued that this calculation looked only at the actual cash that the Company and its investors have contributed to the pension trust, not any of the pension trusts market returns or losses. As such, according to the Company, *shareholders* have funded the prepaid pension asset and, consistent with Finding 312, rate base treatment of this asset should be allowed. Moreover, Xcel stated that it has demonstrated in this proceeding's record following:

- Shareholders have funded a prepaid pension asset for the Company;
- This prepaid pension asset arose due to factors outside the Company's control;
- Standard ratemaking treatment provides for rate base treatment of both shareholder prepayments (such as the prepaid pension asset) and customer prepayments (such as unfunded benefit-related liabilities), and Commissions in other Xcel Energy Inc. jurisdictions, as well as this Commission in the Company's 2013 rate case, have approved such treatment;
- The prepaid pension asset benefits both the Company and customers by helping the Company attract and retain employees and lowering pension expense recovered from customers;
- Recovery of operating costs related to pension expenses does not compensate the Company in any way for the prepayments that have created the prepaid pension asset; and
- Xcel Energy's prepaid pension asset provides significant financial benefits to customers, far exceeding the value to shareholders of including the net prepaid asset in rate base.

Therefore, based on these facts, Xcel has demonstrated the reasonableness of including both the net prepaid pension asset and the net unfunded benefit liabilities in this proceeding. In the alternative, the Company stated that the Commission should adopt ALJ Findings 316 and 317 and require pension expense to be recalculated without applying the expected return to the prepayment portion of the pension trust.

c. Xcel Large Industrials

XLI asserted that it concurs with the ALJ's primary findings and recommendations with respect to the prepaid pension asset. XLI however took exception to the ALJ's conclusion that the Company be permitted to recalculate its qualified pension expense without applying the expected return on the prepayment portion of the pension trust.[117] It recommended that the Commission should modify these findings for three reasons: (i) it is prejudicial to other parties to accept this alternate proposal at this stage of the proceeding; (ii) similar requests have been denied by the Commission; and (iii) the Company has not satisfied all elements of its burden of proof to justify recalculation.

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[117] XLI Exception, at 22.

Additionally, XLI argued that neither the Company nor the ALJ cited to evidence in the record to support this request. Given the significant evidentiary record diligently developed by parties, it is highly prejudicial to allow the Company to propose an alternate path in reply briefing, without providing parties the opportunity to rebut it.[118] XLI also pointed out that the Company's request is also inconsistent with previous Commission decisions. For instance, Otter Tail Power Company also requested that the Commission allow it to modify pension expense in a previous rate case and the Commission denied that request outright. In so doing, the Commission declined to address the alternate proposal to modify the underlying pension expense. Moreover, the Company failed to provide evidence or allow others to review what the revised pension expense is and completely failed to demonstrate that it would be reasonable for ratepayers to be harmed by the adjusted pension expense. Therefore, denial of the Company's alternate proposal is consistent with the affirmative burden of proof Xcel must satisfy

Consequently, XLI requested that the Commission leave the major aspects of the ALJ's PPA findings and recommendations intact but modify them to deny the Company's request to recalculate pension expense without offering parties the opportunity to evaluate this claim during the record development stages of this proceeding.[119]

11. References to the Record

Xcel, Richard Schrubbe Direct, pp. 60-65, 66-68, 71-72, 77, 84.
Xcel, Richard Schrubbe Rebuttal, pp. 11-12, 14, 27-28, 32.
Xcel, Exceptions to ALJ Report, p. 24.
DOC, Nancy A. Campbell Direct, pp. 41-43, 47-48.
DOC, Nancy A. Campbell Surrebuttal, p. 26.
DOC, Exceptions to ALJ Report, pp. 11-12.
XLI, Billie LaConte Direct, pp. 43-46.
XLI, Billie LaConte Surrebuttal, p. 13.
XLI, Exceptions to ALJ Report, pp. 22-23.
ALJ Report, pp. 53-54.
PUC, Docket No. G-011/GR-15, 736, pp. 11-12.

12. Staff Analysis

In previous findings, the Commission rejected proposals to earn a return on the PPA because a utility must demonstrate that, among other requirements, that the PPA was funded by investor capital rather than by either pension trust returns, or the funding recovered from ratepayers. Given that annual market returns on the pension plan trust asset are reinvested into the plan, provides an indication that the funds are not 100% investor-supplied funds.

Staff is not persuaded that Xcel quantified a 100% investor-supplied funding, nor has the Company provided any convincing evidence that warrants that the Commission depart from its

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118 *Id*.

119 *Id*, at 23.

long-standing position that disallowed recovery of the prepaid pension asset.

13. Decision Options

- Approve Xcel's request to include its Prepaid Pension Asset in rate base to earn a WACC return. (Xcel)
- Deny Xcel's request to include its Prepaid Pension Asset in rate base to earn a WACC return. (Department, XLI, ALJ)
- If Xcel's Prepaid Pension Asset is removed from rate base, allow Xcel to recalculate its qualified pension expense without applying the expected return to the prepayment portion of the pension trust to reflect the revised pension expense in rates thus increasing 2022-2024 revenue requirements by $7.948 million, $8.211 million and $9.061 million, respectively. (ALJ, Xcel)
- If Xcel's Prepaid Pension Asset is removed from rate base, do not allow Xcel to recalculate its qualified pension expense without applying the expected return to the prepayment portion of the pension trust to reflect the revised pension expense in rates. (Department, XLI)

G. Accrued Liabilities for Retiree Medical and Post- Employment Benefits

Staff: James Worlobah

1. Issue

Should the Commission approve Xcel's proposal to include accrued liabilities for retiree medical and post-employment benefits in the rate base and earn a WACC return?

2. Xcel Energy – Direct

The Company requested to recover the expense for post-retirement healthcare benefits under FAS 106, Employers' Accounting for Post-Retirement Benefits other than Pensions, and for post-employment long-term disability (LTD) benefits under FAS 112, Employers' Accounting for Post-Employment Benefits. FAS 106 benefits are primarily post-retirement healthcare benefits; whereas, FAS 112 encompasses a number of benefits, including LTD, self-insured workers' compensation and continuation of life insurance.[120]

a. FAS 1–6 - Retiree Medical Expense

Xcel reported that it eliminated FAS 106 retiree medical benefits for all active non-bargaining and bargaining employees more than ten years ago.[121] Even though there are no new entrants into the plan, current employees who were hired prior to the plan's termination date are still eligible for this benefit. Unlike FAS 87, FAS 106 asset gains or losses are not phased in before they are amortized. Instead, the total gain or loss amount is simply amortized over the average years to retirement for active employees. Additionally, the Company stated that the

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[120] Schrubbe Direct, at 51, 15-25

[121] *Id*, at 52, 4-8.

2022-2024 multi-year rate period reflects an Expected Return on Asset (EROA) of 4.50% for both bargaining and non-bargaining employees. It also reflects a 3.64% discount rate, which is the five-year average discount rate. Table 14 shows how the five-year average discount rate was determined.

Table 14
FAS 106 Retiree Medical Discount Rate

Current Rate Case - Using Historical Actuals						
Expense Period	**2017**	**2018**	**2019**	**2020**	**2021**	**Average**
Measurement Date	**12/3/2016**	**12/31/2017**	**12/31/2018**	**12/31/2019**	**12/31/2020**	**5-Year**
Discount Rate	4.13%	3.62%	4.32%	3.47%	2.65%	3.64%

The Company asserted that the process for determining the discount rate for retiree medical is the same as for pension and is built from the same portfolio of bonds developed through the Company's bond-matching study. To arrive at a weighted average discount rate appropriate for each individual plan, the common set of bonds is then applied to the plan-specific cash flows.[122]

Table 14 shows the FAS 106 retiree medical expense for the five years prior to the test year and shows that the test year retiree medical costs are the lowest they have been over this time period. Because the plan was closed to new participants more than a decade ago, the decrease in retiree medical costs has been the norm over the last several years because fewer employees being eligible for the benefit. The steep drop in cost in 2021 is primarily due to a lower loss amortization and interest cost. The decreased loss amortization resulted from a net gain in 2020 attributable to:[123]

- Claims increases being lower than expected.
- Decrease in liability due to normal operation of the plan.
- 2020 asset returns being much higher than expected.

Table 15
FAS 106 Retiree Medical Expense

NSPM Electric O&M State of MN	
Year	**Amount ($)**
2018	1,968,757
2019	1,310,993
2020	1,031,046
2021 Forecast	252,154
2022 Test Year	224,423

[122] Schrubbe Direct, at 53, 23-27.

[123] *Id.*, at 54, 4-18.

2023 Plan Year	1,189,017
2024 Plan Year	1,383,318

Based on the actuarial study provided to the Company by Willis Towers Watson,[124] the significant increase from 2022 to 2023 is due to a prior service credit that will be fully amortized prior to 2023.[125] Exhibit___(RRS-1), Schedule 10 shows the conversion of the 2022 total cost amounts to the NSPM electric O&M, state of Minnesota amount)[126].

b. FAS 112 Long-Term Disability Benefits (LTD)

Xcel noted that LTD benefits are provided by the Company to former or inactive employees after employment but before retirement. The LTD plan provides the employee income protection by paying a portion of the employee's income while he or she is disabled by a covered physical or mental impairment. The Company noted that the accounting treatment varies, depending on whether the cost is self-insured or fully insured. For the self-insured piece, the Company is required to accrue LTD costs under FAS 112, while the fully insured piece is simply the cost of the insurance premium incurred each year along with any other miscellaneous costs. The FAS 112 accrual represents the expected disability benefit payments for employees that are not expected to return to work.[127]

Table 16 compares the FAS 112 long-term disability benefit costs from 2018 through 2024.

Table 16

FAS 112 Long-Term Disability Expense

NSPM Electric O&M State of MN	
Year	**Amount ($)**
2018	11,661
2019	(73,237)
2020	257,864
2021 Forecast	284,366
2022 Test Year	56,305
2023 Plan Year	52,562
2024 Plan Year	49,353

FAS 112 self-insured costs fluctuate from year to year because of changes to the discount rate or demographic adjustments, such as changes in the number of disabled employees or changes

124 *Id.*, Exhibit RRS-1, Schedule 9.

125 Schrubbe Direct, at 55, 3-10.

126 *Id*, at 55, 14-17.

127 *Id*, at pages 55-56, 22-25 & 1-10.

in the amount of the average monthly disability benefit. Discount rate changes and demographic adjustments are the differences between actual experience and assumed experience and are recorded in the current year.

The larger LTD costs in 2020 and 2021 are due to fully recognizing the losses associated with the decrease in discount rates (4.25% to 3.41% for 2020 and 3.41% to 2.53% for 2021). These changes were significant because there is no amortization for gains and losses since there are no active employees to accrue the gain or loss over. The entire amount is recorded when it is determined.[128] The cost decreased significantly from 2021-2022 because the Company assumed no further gains and losses arising from changes to the discount rate. To incorporate the most recent measurement date of December 31, 2021, the Company stated that it will provide updated FAS 112 costs in Rebuttal Testimony.[129]

In summary, Xcel requested approval of 2022-2024 retiree medical expense in the amounts of $0.2 million, $1.2. million, and $1.4 million, respectively. Additionally, the Company requested approval of 2022-2024 FAS 112 long-term disability benefit expense in the amounts of $56,305, $52,562, and $49,352, respectively. Xcel further attested that it is appropriate that customers pay for these benefits because they reflect a reasonable and necessary level of expense and because these are commitments that the Company made to employees who provided quality service to Xcel customers for many years.[130]

3. Department of Commerce –Direct

As shown in Table 17, the Company included FAS 112 and FAS 106 expenses for the five-year forecast.

Table 17: FAS 106 Retiree Medical & FAS 112 Long-Term Disability Expenses[131]

	2022	2023	2024	2025	2026
FAS 106 Retiree Medical	$224,423	$1,189,017	$1,383,318	$1,307,377	$1,234,781
FAS 112 Post-Employment Benefits	$ 56,305	$ 52,562	$ 49,352	$ 46,018	$42,410

Additionally, as shown in Table 18, the Company provided 2022 test year accrued liabilities with the rate base, ADIT, and net rate base basis.

Table 18: Non-Plant Assets & Liabilities for FAS 106 & FAS 112 Rate Base ($million)

[128] Schrubbe Direct, at 57, 13-27.

[129] *Id*, at 58, 23-26.

[130] *Id*, at 59, 5-16.

[131] Campbell Direct, at 51.

	Non-Plant Rate Base	ADIT	Net Rate Base Asset/(Liability)
FAS 106 – Retiree Medical	($25.4)	$7.1	($18.3)
FAS 112 – Post Employment Benefits	($9.3)	$2.6	($6.7)

The 13-month average balance of ($25.4 million) represents the cumulative difference between FAS 106 expense and employer contribution. Furthermore, the Company stated that the funded status was 5% or ($48.5 million) and the associated ADIT was $7.5 million as of December 31, 2021.

The post-employment 13-month average balance of ($9.3 million) represents the cumulative difference between FAS 112 expense and actual payments.[132] The Department concluded that, similar to its prepaid pension asset, these balances represent the cumulative difference between expense and payments/contributions. In view of this, the Department recommended that they be removed from the test year for the same reasons as the prepaid pension asset discussed under that issue. Accordingly, this recommendation increases Xcel's test year non-plant assets and liabilities (net rate base) by $18.3 million for FAS 106 and $6.7 million for FAS 112. For all years, 2022 to 2026, the increase in rate base is included with the prepaid pension asset decrease in rate base.[133]

4. Xcel Energy – Rebuttal

Xcel reiterated that, based on the standard ratemaking treatment of prepayments, the Commission should include the unfunded liabilities in rate base. Xcel noted that prepayments by the Company are additions to rate base and prepayments by customers are subtractions from rate base. Xcel stated that the cumulative amounts of recognized retiree medical expense and self-insured LTD expense exceed the Company's cumulative contributions, so customers have essentially prepaid approximately $25 million of retiree medical expense and self-insured LTD expense.[134] As such, those customer prepayments should be included in rate base, which has the net effect of reducing rate base by approximately $25 million.

The Company agreed with the Department that the treatment of the unfunded liabilities should be consistent with the treatment of the prepaid pension asset. Unlike the Department however, Xcel stated that as with its proposal for prepaid pension asset, unfunded retiree medical and self-insured LTD liabilities should be included in rate base as well.[135]

5. Department of Commerce – Surrebuttal

The Department noted that prepaid pension asset should not be included in rate base and,

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132 Campbell Direct, at 53, 3-7.

133 *Id*, at 17-20.

134 Schrubbe Rebuttal, at 33, 13-21.

135 Schrubbe Rebuttal, at 34, 5-8.

similarly, unfunded liabilities should be treated the same and not included in rate base.[136]

6. Xcel Large Industrials – Surrebuttal

XLI noted that Xcel's claim that XLI did not address the issue of whether unfunded liabilities associated with retiree medical and self-insured LTD should be included in rate base ignored XLI's statement in direct testimony that "[o]ne should not interpret the fact that I do not address every issue raised by NSP as an endorsement of its proposals."[137] XLI asserted that it does not support the inclusion of unfunded liabilities associated with retiree Medical Benefits and Self-Insured LTD in rate for the same reasons that it opposed the inclusion of the prepaid pension asset in rate base.[138]

7. Administrative Law Judge Report

The ALJ Report alluded to Xcel's request to include its prepaid pension asset in its rate base; and that similarly, the Company requested to include in rate base accrued liabilities for retiree medical and post-employment benefits.

The ALJ also noted that the Department opposed this request for the same reasons that it opposed Xcel's prepaid pension asset request.[139]

The ALJ referenced Xcel's acknowledgement that this request is in-line with its requested treatment of prepaid pension asset. As a result, the ALJ presented the following findings:

> 321. Xcel acknowledged that its request is in-line with its requested treatment of prepaid pension asset. The Company agreed with the Department that the treatment of the unfunded liabilities should be consistent with the treatment of the prepaid pension asset but argued that both the unfunded liabilities and the prepaid pension asset should be included in rate base. The Company's reasoning echoed the analysis of that regarding the prepaid pension assets.
>
> 322. For the reasons provided above regarding Xcel's prepaid pension asset request, the Judge recommends that the Commission deny Xcel's request to include in rate base accrued liabilities for retiree medical and post-employment benefits.

8. Exceptions to ALJ Report

a. Xcel Energy

For the same reasons listed in the Prepaid Pension Asset section, Xcel took exception to the

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136 Campbell Surrebuttal, at 35, 14-16

137 LaConte Surrebuttal, at 14, 13-15.

138 *Id*, at 14, 18-20.

139 ALJ Report, at 55.

ALJ's disallowance.

9. References to the Record

Xcel, Richard Schrubbe Direct, pp. 51-55.
Xcel, Richard Schrubbe Rebuttal, pp. 33-35.
DOC, Nancy A. Campbell Direct, pp. 51 and 53.
DOC, Nancy A. Campbell Surrebuttal, p. 35.
XLI, Billie LaConte Surrebuttal, p. 14.

10. Staff Comments

Staff concurs with the ALJ findings, and the recommendations of the Department and XLI, that the Commission deny Xcel's request to include in rate base accrued liabilities for retiree medical and post-employment benefits for reasons similar to the reasons presented for prepaid pension assets.

11. Decision Options

- Approve Xcel's proposal that the accrued liabilities for retiree medical and post-employment benefits be included in the rate base and earn a WACC return. (Xcel)

- Deny Xcel's proposal that the accrued liabilities for retiree medical and post-employment benefits be included in the rate base and earn a WACC return. (ALJ, Department, XLI)

H. Generation O&M Expenses

Staff: Eric Willette

1. Issue

Should the Commission approve recovery of Generation O&M expenses for MYRP at the levels requested by Xcel, or reduce those expenses as recommended by the Department?

2. Xcel Energy – Direct

The Company stated that their operations and maintenance (O&M) budget is needed for operation and maintenance of their generation fleet, which cover the following categories: Internal Labor (operates and maintains generation), Contract Labor (external with different skill set), Materials, Chemicals (used in reducing emissions), and Other (land easements for wind).[140] The Company is seeing the expense mix from the categories change as they move to more renewable energy sources. The Company stated that Chemical expense has decreased and will

[140] Ex. Xcel-37 at 74 (Capra Direct).

keep decreasing as it reduces the amount of coal generated energy at the same time other expenses are increasing as land easement payments increase with more wind generation.[141]

Figure 19 shows fuel costs by type and, 2018-2021 historical actuals and 2022-2024 budgeted years, shows the decrease of coal and increase of wind.

Figure 19 - O&M Cost by Fuel Type[142]

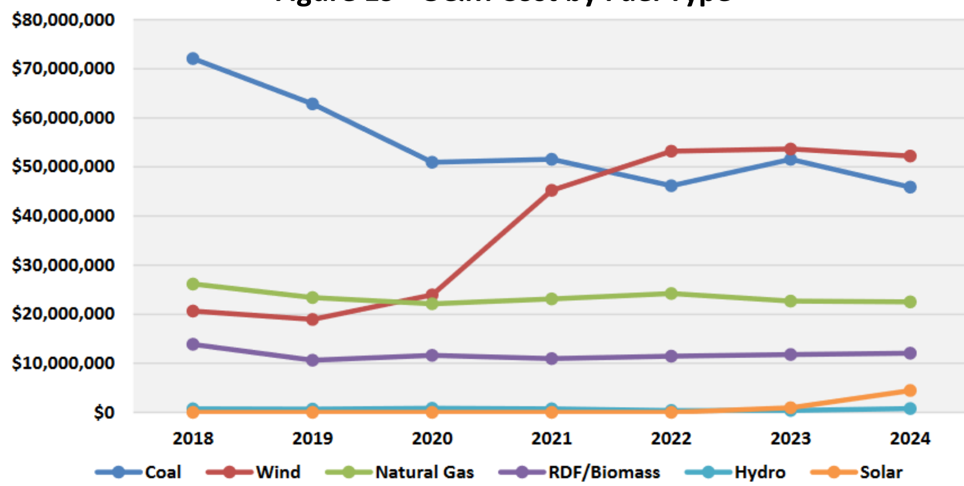

Table 20 shows Xcel's O&M budget of $154.6 million for 2022, $160.8 million for 2023, and $157.7 million for 2024. With generation fleet changing, the effects to the O&M budget over the term of the MYRP are caused by asset additions and managing asset retirements.[143]

Table 20 - Historical and Budgeted O&M By Category[144]

O&M Category	2018 Actual	2019 Actual	2020 Actual	2021 Forecast	2022 Budget	2023 Budget	2024 Budget
Internal Labor	$ 74,479,153	$ 67,915,487	$ 65,250,024	$ 65,995,237	$ 59,985,657	$ 63,842,370	$ 61,250,785
Contract Labor	$ 37,070,615	$ 26,413,033	$ 31,204,272	$ 44,126,587	$ 49,303,942	$ 49,306,935	$ 46,296,830
Materials	$ 18,215,699	$ 19,431,453	$ 16,106,939	$ 15,805,557	$ 20,951,480	$ 22,831,820	$ 23,106,605
Chemicals	$ 6,865,136	$ 5,689,360	$ 4,674,675	$ 4,677,685	$ 3,090,002	$ 3,027,648	$ 3,214,496
Other	$ 19,042,625	$ 13,928,105	$ 9,409,313	$ 18,858,639	$ 21,244,403	$ 21,811,461	$ 23,802,983
Total	$ 155,673,228	$ 133,377,438	$ 126,645,223	$ 149,463,705	$ 154,575,484	$ 160,820,234	$ 157,671,699

The Company stated the O&M budget is based on factors that include financing availability, specific needs, and overall needs of the business.[145] Each year, the Energy Supply's service organization sets, for a five-year period, a budget covering various cost categories like

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141 *Id* at 75.

142 *Id* at 76.

143 *Id* at 78.

144 *Id* at 77.

145 *Id* at 82.

headcount, overtime, materials, outside services, rents, and land easements.[146] These costs are grouped at a plant level and compared to historical actuals for reasonableness, plant operating profile, plant improvements, overhaul schedules and adjusted as needed. The approval process for each plant is done by both regional and executive leadership.[147] When issues come to light that require adjustment of O&M budget, Energy Supply leadership and Finance must approve such changes. Any variances are first researched with plant and finance personnel and then presented to Energy Supply leadership and Finance leadership monthly.[148]

The Company noted the following categories: Internal Labor, Contract Labor, Materials, Chemicals, and Other impact the amounts shown in Table 20. The main drivers for changes in these categories are overhauls and projects which vary from year to year considering the condition of the equipment. Overhauls are regular maintenance of generation station that includes inspections and preventive and corrective maintenance activities preformed to meet reliability goals. Overhauls increase Internal Labor, Contract Labor, and Material costs but they decrease Chemicals. To ensure long-term reliability prevent operational issues and forced outages, the Company plans and schedules overhauls based on operating profiles and equipment condition.[149] The overhaul scheduling is planned with Commercial Operations in a collaborative effort to keep regional operations safe and reliable.[150]

The Company stated that internal labor averaged $69.2 million for the last three-years. Going forward, the Company expects a slight decrease in Internal labor costs as they continue to retire some of their coal generation plant but that will be offset by wage growth and increased headcount supporting renewable generation.[151]

The Company stated that wind farm facilities will drive a 56.% increase in Contracted labor in the first test year. The first full-year service agreements that impact to 2022 O&M budget are Dakota Ridge I and II, Blazing Star I and II, Freeborn, Mower County, Jeffers, Community Wind North, and Crown Ridge. The 2023 Contract Labor budget will stay stable at $49.3 million and, as a result of wind operating and maintenance contracts' structures, 2024 Contract Labor will decrease to $46.3 million.[152]

The Company stated the 2022 Material $3.0 million budget increase driven by new wind resources' material costs. The 2023 Material $1.9 million budget increase is driven by write-off of Sherco Unit 2 obsolete inventory and Sherco Unit 3's overhaul. The Sherco Unit 2 write-off

146 *Id.*

147 *Id.*

148 *Id* at 83.

149 *Id* at 84-85.

150 *Id.*

151 *Id* at 87-89.

152 *Id* at 90-92.

will drive the 2024 slight $0.3 million increase.[153]

The Company's Chemical budget is directly related to controlling emissions. As a result of more efficient use of chemicals, Chemical cost have historically come in below budget. . Therefore, the 2022 budget shows a $2.6 million, or 46.2%, decrease. The 2023 budget shows a nominal $0.06 million increase and the 2024 budget also shows a slight $0.19 million increase.[154]

The Company stated that 2022 Other Costs will increase by $7.1 million, or 50.3 %. 2023 will increase by $2.4 million, or 12.7% and 2024 will increase by $1.9 million, or 9.1%. All these costs are driven by new easement payments related to land used for wind generation,[155]

3. Department of Commerce - Direct

The Department recommended a $6.5 million per year reduction to the overall O&M budget and supported their recommendation by comparing the 2021 forecast to the 2021 actuals which are $149.5 million and $143.0 respectively.[156]

In Table 21, the Department showed the Company over-recovered, on average, $16.3 million per year. 2016 to 2021 trends show actuals were up and down which supports using an average cost for rate setting purposes. The Department used the following list to support reducing O&M budget costs:

A. The Company significantly over forecasted its costs in the last rate case resulting in a significant over recovery of its 2016-2021 costs.
B. The Company overstated it most recent 2021 forecast compared to actuals by $6.5 million.
C. The Company's 2016 to 2021 cost are up and down, which supports the use of an average that would reduce costs by $8.5 to $10.9 million.
D. Employee headcount is going down from 2022 to 2026.
E. Xcel will be retiring its Sherco 2 plant in 2023.[157]

Table 21 - Generation O&M Test Year (TY) compared to Actuals ($Million)[158]

[153] *Id* at 93-95.

[154] *Id* at 112-113.

[155] *Id* at 114-115.

[156] Ex. DOC-21 at 75 (Campbell Direct).

[157] *Id* at 76.

[158] Id at 74.

	2016 TY	2016	2017	2018	2019	2020	2021
2016 TY	$120.9	$120.9	$120.9	$120.9	$120.9	$120.9	$120.9
Actual Generation O&M	$112.4	$112.4	$106.3	$114.0	$97.7	$92.7	$103.8
Over Recovered		$8.5	$14.6	$6.0	$23.2	$28.2	$17.1

4. Xcel Energy - Rebuttal

The Company broke down the Department's five reasons why the current forecast for O&M budget should be reduced. Over-forecasting in the last rate case was caused be unanticipated change in coal fleet by having some facilities moved from year use to seasonal, and investment of wind generation. 2021 forecast was above actual expense in part because the Company received $5.5 million in damage payments from wind providers. The Company acknowledged the 2016-2021 costs were up and down but, disagreed that a historic average would be appropriate because energy supply is undergoing a signification change as the Company is driving to a carbon-free future. The Company did concur the employee headcount for Energy Supply is projected to decrease but, with scheduled planned overhauls and plant shutdowns, actual labor costs will not decrease.[159] Company stated that the Sherco 2 retirement is already accounted for in the budget so they see no reason why that would provide additional savings.

The Company noted that the Department's $6.5 million per year reduction would be Company-wide and that $5.3 million would be the correct figure for the Minnesota jurisdiction.

5. Department of Commerce - Surrebuttal

The Department agreed that the Minnesota jurisdiction for O&M reduction calculation should be $5.3 million. The Department agreed the Company is continuing to move to a different generation mix which will affect O&M costs but, with a company as big as Xcel, even with these changes, there should also be savings, such as reduced in maintenance of older plants as new generation comes on-line, as these changes are implemented.

The Department reiterated the five reasons stated above and supported a $5.3 million reduction per year to Generation O&M expense.

6. Administrative Law Judge Report

The ALJ found:

> 337. The Company has met its burden to establish that its forecasted Energy Supply O&M budget is just and reasonable. The Company has justified its budgeted amount and credibly explained the reasons for differences between its forecasted and actual expenses between 2016 and 2021. The Department's backwards-looking analysis does not, in and

[159] Ex. Xcel-39 at 10 (Capra Rebuttal).

> of itself, render Xcel's forecast in this proceeding unreasonable. The Department identifies neither specific disallowances nor, in light of the entire record, a sufficient, substantive basis to doubt the reliability of the Company's forecast on this record. Additionally, the Department's proposed $5.3 million annual reduction amount is arbitrary and unsupported by substantial evidence that the allowed expense should be reduced by that amount in each test year.[160]
>
> 338. The Judge recommends that the Commission allow Xcel to recover its proposed Energy Supply O&M Expenses, and not adopt the Department's proposed adjustment.[161]

7. Exceptions to the ALJ Report

The Department continued to recommend its $5.3 million reduction per year and stated:

> Recommends that the commission reduce Xcel's request increase for Energy Supply O&M expense because of Xcel's history of over-forecasting, decrease expense in key areas, and failure to otherwise support its increase. The Departments adjustment will bring Xcel's recovery to more realistic levels and avoid repeating ratepayers' $97.6 million over-payment to Xcel since 2016.[162]

8. Staff Comments

Staff finds the Department's arguments persuasive. Forecasting can always be difficult and even more so now when there are inflation pressures on materials and labor, but Staff finds it significant that the Company substantially over-forecasted in the last rate case and the 2022 test year in this case.

9. References to Record

Xcel, Halama Direct, p.53
Xcel, Capra Direct, pp. 74-115
DOC, Campbell Direct, pp. 73-76
Xcel, Halama Rebuttal, p.37
Xcel, Capra Rebuttal, pp. 2-12
DOC, Campbell Surrebuttal, pp. 43-49
ALJ Report, pp. 55-59, Findings 323-338
DOC, Exceptions to ALJ Report, pp. 15-23

10. Decision Options

- Approve recovery of Xcel's 2022-2024 Generation O&M expenses totaling $154.6 million, $160.8 million and $157.7 million, respectively. (Xcel, ALJ)

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[160] ALJ Report at 58.

[161] *Id* at 59.

[162] DOC Exception to ALJ at 23.

- Approve recovery of Xcel's 2022-2024 Generation O&M expenses totaling $149.3 million, $155.5 million and $152.4 million, respectively which results in an annual 2022-2024 revenue requirement reduction of $5.3 million. (DOC)

I. Business Systems O&M Expenses

Staff: Ashley Marcus

1. Issue

Should the Commission approve Xcel Energy's 2022 – 2026 business systems O&M expenses?

2. Xcel Energy – Direct

Costs related to the operation and maintenance of existing IT assets are Business Systems O&M expenses. The budget includes network services, software licenses and maintenance, company labor, distributed systems services, contract labor and consulting, shared asset allocation, hardware purchases and maintenance, employee expenses, mainframe, advanced grid intelligence and security (AGIS), and other costs. Xcel proposed a 2022-2024 NSPM Electric test year expenses of $103.2 million, $110.3 million, and $119.1 million, respectively. Internal labor for AGIS is included in the business systems budget but all other AGIS program costs are not being requested in base rates because Xcel will seek recovery through the Transmission Cost Recovery (TCR) Rider. Xcel explained expense increases by stating:[163]

> From 2018 through 2020, Business Systems O&M costs increased largely due to our need to maintain new GL and WAM assets while also maintaining prior IT capital investments. Looking ahead to 2022 through 2024, we anticipate continued cost increases reflecting the addition of new capital investments, customer experience projects, and AGIS investments.

3. Department of Commerce – Direct

The Department recommended a reduction in expenses based on trend analysis of actual results and future expectations for IT from Gartner[164]. Table 22 details the Department's recommendation.

Table 22 - Xcel Requested Business System O&M Compared to DOC Recommendation - MN Jurisdictional ($M)[165]

[163] Ex. Xcel – 50 at 106 (Remington Direct)

[164] Ex. DOC – 7 ALS-D-4 (Skayer Direct) (Gartner Article) [can also be found at https://www.gartner.com/en/articles/it-budgets-are-growing-here-s-where-the-money-s-going]

[165] Ex. DOC - 7 at 23 (Skayer Direct)

	2022 Test Year	2023 Test Year	2024 Test Year	2025 Test Year	2026 Test Year	Total
Xcel Requested	$95.5	$109.3	$117.3	$125.6	$124.0	$571.8
DOC Recommendation	$90.1	$98.0	$104.0	$110.3	$110.3	$512.7
DOC Adjustment	$5.5	$11.3	$13.4	$15.3	$13.7	$59.1

4. Xcel Energy – Rebuttal

Xcel stated the Department's recommendation was too general and the trend analysis did not capture new capital investments, new licensing and maintenance agreements or inflation. The Company noted that the Department included all AGIS costs in its recommendation instead of just costs impacting base rates. Xcel noted that the Department did not evaluate nor challenge the reasonableness of specific business systems capital investments or O&M expense.

Xcel challenged the Gartner reference because the article was worldwide rather than US, it was not specific to utilities, it was not specific to O&M, and 2021 analysis was used rather than more current analysis from 2022.

5. Department of Commerce – Surrebuttal

The Department disagreed with Xcel's claim that its analysis was too general but requested additional data points to conduct a more detailed investigation.

The Department requested data from Xcel reflecting the Minnesota Jurisdictional amounts with AGIS removed by expense category for 2018-2024. The Department also requested detail on the Productivity Through Technology (PTT) project, Core Human Resources (HR) project and Customer Experience (CXT) project, and Microsoft Next Generation project because Xcel identified these projects as significant drivers of business systems O&M expenses. Xcel provided the requested information.

Based on the additional detail and analysis, the Department revised its recommendation to account for labor costs, software and maintenance, and inflation of 7.5% for 2022 - 2023 and 7.0% for 2024. The updated recommendation is reflected in Table 23.

Table 23 - Revised Xcel Requested Business System O&M Compared to DOC Recommendation - MN Jurisdictional ($M)[166]

	2022 Test Year	2023 Test Year	2024 Test Year	Total
Xcel Requested	$89.8	$96.1	$103.8	$289.7
DOC Recommendation	$84.3	$90.6	$96.9	$271.8
DOC Adjustment	$5.5	$5.5	$6.9	$17.9

6. Administrative Law Judge Report

The ALJ agreed with Xcel that the Department's analysis did not support the recommendation to decrease business systems O&M expenses and did not consider or evaluate new capital investments.

The ALJ found:[167]

> 357. The Judge concludes that the Company has met its burden to demonstrate that its proposed Business Systems O&M costs in the MYRP are reasonable. Because there is inadequate record support for the calculation of the Department's recommended 7.5% increase for 2022 and 2023 and a 7.0% increase for 2024, they lack evidentiary support and would not provide a reasonable level of O&M costs to reflect in the MYRP.
>
> 358. The Judge recommends that the Commission allow Xcel to recover its proposed Business Systems O&M Expenses, and not adopt the Department's proposed adjustment.

7. Exceptions to the ALJ report

a. Department of Commerce

The Department disagreed with the ALJ recommendation to allow Xcel to recover its proposed business systems O&M expense. The Department explained:[168]

> For Business Systems O&M expense, the ALJ determined that the Department had not examined "all of the illustrative new capital projects driving O&M." Requiring a line-by-line item review of capital projects that may be supported by an operations budget review would require significantly more experts and time than the rate case statutory deadlines allow. Requiring review and analysis of all capital projects in an O&M review also ignores the test-year concept that expense budgets be "representative."

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166 Ex. DOC – 8 at 28 (Skayer Surrebuttal)

167 ALJ Report at 61

168 DOC Exceptions to the ALJ Report at 61

The Department noted that the ALJ findings shifted the burden of proof from Xcel to the Department. Test year budgets should be realistic and based on historical data to decrease the likelihood of over-recovery and prevent utilities from overloading budgets with expenses that may not be spent in the projected test years.

8. References to the Record

Xcel – 50 at 105-121 (Remington Direct)
DOC – 7 at 20-23 (Skayer Direct)
Xcel – 82 at 37-38 (Halama Rebuttal)
Xcel – 51 at 3-12 (Remington Rebuttal)
DOC – 8 at 18-29 (Skayer Surrebuttal)
ALJ Report at 59 – 62
DOC Exceptions to the ALJ Report at 15 - 19

9. Decision Options

- Approve Xcel's 2022-2024 business systems O&M expenses of $89.9 million, $96.2 million, and $103.8 million, respectively. (Xcel, ALJ)
- Approve Xcel's 2022-2024 business systems O&M expenses of $84.3 million, $90.6 million, and $96.9 million, respectively which results in a 2022-2024 revenue requirement reduction of $5.5 million, $5.5 million, and $6.9 million, respectively. (Department)

J. Property Tax Expenses

Staff: Christine Pham

1. Issue

What level of property tax expense should be included for each year of the MYRP?

2. Xcel Energy – Direct

In general, the parties agree that Xcel should have a property tax true-up during this MYRP but disagree about the base that should be set for the true-up and whether there should be a cap placed on true-up amounts.

Xcel provided property tax expense forecasts for 2021 through 2024 for the purpose of seeking to recover the property tax costs of Multi-Year Rate Plan (MYRP): 2022 $248.9 million, 2023 $246.3 million, and 2024 $284.8 million. The Company reported that Minnesota taxes for the electric and gas utilities account over 94% of the NSPM.[169] Table 24 shows the Company's forecasted property tax by state taxing jurisdiction.

[169] Ex. Xcel-69 at 3 (Arend Direct)

Table 24: Forecasted Property Tax Expense ($ Millions)[170]

Component	2020 Actual	2021 Forecast	2022 Forecast	2023 Forecast	2024 Forecast
Minnesota Taxing Jurisdiction	$204.1	$214.2	$235.5	$249.7	$268.7
North Dakota Taxing Jurisdiction	$7.0	$6.9	$7.4	$7.8	$8.4
South Dakota Taxing Jurisdiction	$4.5	$5.0	$5.8	$6.4	$7.0
Iowa Taxing Jurisdiction	$0	$0	$0.2	$0.4	$0.7
NSPM (Total Company)	$215.6	$226.1	$248.9	$264.3	$284.8
State of Minnesota Electric Jurisdiction	$157.1	$164.8	$181.6	$192.5	$207.1

The Company noted that approved 2016-2019 property taxes were $163.1 million. $151.6 million was included in base rates and the remaining $11.5 million was included in various riders[171]. However, its 2017-2019 true-ups were less than $151.6 million base rates and were refunded to customers per the annual true-up process. The 2020 property taxes on State of Minnesota Electric Jurisdiction basis were also less than the approved base rates $151.6 million by $12.3 million.[172]

The 2021-2024 forecast data inputs were based on the same key variables used in prior rate cases. The Company explained the forecasted property taxes are increasing due to ongoing system investments that have increased the 2021 Department of Revenue (DOR) valuation of the Company's operating property in Minnesota.

The Company also proposed to continue the annual compliance filing and true-up that reflects actual property taxes each year for all operating jurisdictions.

3. Department of Commerce – Direct

The Department commented that, after the Company filed direct testimony, in September 2022 the Company and the DOR reached a settlement regarding the 2022 Apportionable Market Value (in September 2022). Thus, as shown in Table 25 the 2022-2026 property tax expense at the Minnesota Electric Jurisdiction basis was updated.

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170 *Id*

171 Ex. Xcel-69 at 21 (Arend Direct)

172 Ex. Xcel-69 at 22 (Arend Direct)

Table 26: Company Forecasted Property Tax Expense [173] [174]

Year1	Initial Filing Forecasts	Updated Forecasts
2022F	248,859,000	231,924,000
2023F	264,264,000	252,132,000
2024F	284,757,000	272,901,000
2025F	300,030,000	289,974,000
2026F	321,135,000	310,743,000
[1] Forecasts		

The Department recognized that the Company updated its effective tax rate from 2.93% to 2.89% in 2021 based on the property tax statements. This change in tax rate can result in millions of dollars in reduced property tax expense. [175] Although the Company updated its total forecasts, the Department disagreed with its estimated increase in property tax expense for 2022 through 2026 (5.01%, 8.71%, 8.24%, 6.26%, and 7.16%). The Department said the Company's 2022 test year property tax expense increase of 5.01% is over 6.5 times the average increase of the past five years (0.77%) but did not provide proper justification for the percentage increases.[176] Therefore, the Department recommended to the Commission approve the Company to use its updated forecast for test year 2022 property tax expense of $231,924,000 but only get an annual increase property tax expense by 2.5% for years 2023 through 2026. This recommendation was based on the recent property tax increases in 2021 (2.47%) and 2020 (2.21%) compared to the five-year average of 0.77%.

The Department noted on the Company's true up from year 2017 through 2021 over-collected its property tax expense.[177] Therefore the Department recommended the Company to continue its property tax true-up mechanism during the MYRP period as in previous rate case 2016 MYRP however is not allowed to recover the property tax expense if it exceeds 5% of the Department's recommended amount to include in this MYRP.

4. Xcel Energy – Rebuttal

After receiving final 2022 valuations from MNDOR, North Dakota, South Dakota as well as the 2022 property tax bill payable (effective tax rate changed to 2.89%), the Company, as shown in Table 27, updated its property tax expense forecasts.

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[173] Ex. DOC-3 at 12 (Soderbeck Direct)

[174] Staff notes that Table 3 of Soderbeck Direct shows these amounts to be for the Minnesota jurisdiction; however, as shown below, these amounts appear to be Total Company.

[175] *Id* at 14

[176] Ex. DOC-3 at 19 (Soderbeck Direct)

[177] Ex. DOC-3 HS-D-7 at 2 (Soderbeck Direct)

Table 27: Updated MYRP Property Tax Expense ($ Millions)[178]

	Initial 2022 Forecast	Updated 2022 Forecast	Initial 2023 Forecast	Updated 2023 Forecast	Initial 2024 Forecast	Updated 2024 Forecast
NSPM (Total Company)	$248.9	$231.9	$264.3	$252.1	$284.8	$272.9
State of Minnesota Electric Jurisdiction	$180.0	$165.9	$192.6	$181.1	$208.1	$196.7

The Company agreed with the Department's 2022 adjustment test year amount $231,924,000 but did not agree with the annual 2.5 percent incremental increases for the 2023 through 2026. The Company argued that the recommendation based on "trends" from past years is incorrect and that the average change in actual property tax expense from year to year is simply not pertinent to the forecasting process.[179] The Company said that DOR considers each year's property tax valuation to be an independent calculation that is not dependent on or related to the valuation from prior years property tax expense. Therefore, the average change in property tax in prior years is not relevant to the amount of property tax.

The Company agreed with the Department that an annual true-up process should be used for property tax expense but disagreed with the Department's recommended 5% cap. The Company commented that property tax expense fluctuates from year to year are due to factors outside the Company's control such as the DOR's Cap Rate, weightings, and local tax rates. As a result, the Company's final property taxes could be higher or lower than forecasted. The Company argued that the Department's 5% cap recommendation could result in the Company under-recovering this cost. Therefore, the Company proposed to continue the property tax tracker currently in effect and using updated property tax expense forecasts.[180]

5. Department of Commerce – Surrebuttal

The Department addressed the uncertainty on the Company's estimate of weightings applied to the indicators of value to determine the System Unit Value which results in the Minnesota Apportionable Market Value amount with the Department of Revenue. The Department noted DOR is allowed to enter settlements "when it appears to be in the best interest of the state" and would reach its acceptable settlement level with companies by considering other adjustments, not solely the weightings applied to the indicators of value. [181] The Department also stated that the Company did not factor the adjustments it made to Plant in Service, Depreciation, and Net Operating Income (NOI) when calculating the Minnesota Allocated Value Percentage. The Department said the amount of Plant in Service and Depreciation change in

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178 Ex. Xcel-70 at 3 (Arend Rebuttal)

179 *Id* at 10

180 Ex. Xcel-82 at 19 (Halama Rebuttal)

181 Ex. DOC-5 at 38 (Soderbeck Surrebuttal)

the valuation; the amount of Net Depreciable Excludable Property should also be changed. The Department also disagreed with the Company's estimate of the sliding scale market value exclusion amount $233,600,000 for 2022, 2023, and 2024. The Department provided the estimate of the sliding scale market value exclusion the Department of Revenue applied in its 2022 assessment in the amount of $229,262,000 ($4 million less than the Company's estimate).

The Department noticed that the Company used the estimated capitalization rate, weightings applied to indicators of value, system plant, Minnesota plant, system-wide depreciation rate, amount of excludable property, sliding scale market value exclusion, etc. as factors of determining level of NSPM Total Company property taxes. However, The Department pointed out the Company's history of over-estimating its property tax expense and the amount the Company over-collected in property tax expenses from 2017 to 2021 was $61.9 million (and later returned through the property tax true-up mechanism).[182] Although the Company provided its estimated factors, the Department said using historical data to estimate future property tax expense is a reasonable approach and the Commission utilized averages in several instances in general rate proceedings to set costs. As a result, the Department, as shown in Table 28, recommended 2022-2024 property tax adjustments for the Minnesota Electric Jurisdiction and withdrew its recommendation to cap any true-up surcharge at 5%.

Table 28 – Department of Commerce Recommended Property Tax Adjustments [183]

Year	Company Proposed MN Elec. Juris	Department Recommended MN Elec. Juris	Department MN Elec. Juris Adjustment
2022	180,012,000	165,930,000	(14,082,000)
2023	192,570,000	169,889,000	(22,681,000)
2024	208,503,000	173,946,000	(34,107,000)

6. Administrative Law Judge Report

In Finding 372, the ALJ recommended that the Commission adopt the Department's property tax expense recommendation and continue the property tax true up mechanism. The ALJ was silent regarding the 5% cap that was originally proposed, and later withdrawn, by the Department.

7. References to the Record

Xcel - 69 at 3-23 (Arend Direct)
Xcel - 70 at 3-24 (Arend Rebuttal)
Xcel - 79 (Halama Rebuttal)
DOC - 3 at 11-24 (Soderbeck Direct)

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182 *Id* at 41

183 *Id* at 42

DOC - 3 at 16, 37-41 (Soderbeck Surrebuttal)
ALJ Report, pp. 68-70

8. Staff Analysis

In summary, the Department used historical data and average trends to estimate future for property tax expense and used the average change in actual property tax expense from year to year. The Company provided updated property tax forecasts based on the projected weightings applied to indicators of value, system plant, tax effective rates, etc. Staff notes that, although the Department's analysis did not capture all factors in determining the appropriate level of property taxes, the Department pointed out that the Company's property tax yearly true-up data in past five years were over collected each year. Additionally, the Company's current property tax expense forecasts did not factor the adjustments it made to Plant in Service, Depreciation, and Net Operating Income (NOI) when calculating the Minnesota Allocated Value Percentage and some other potential changes for each year in other areas like weightings applied to indicators of value, system-wide depreciation rate, amount of excludable property, sliding scale market value exclusion. Staff views that the Company's property tax forecast process still has some uncertain data to support its final proposed amount. Thus, the Commission could adopt the Department's recommendations. However, if the Commission finds the internal and external source information with the qualitative information garnered and incorporated by the Company to make its estimates persuasive then the Commission could allow full recovery of test year expenses.

9. Decision Options

- Approve Xcel's 2022-2024 property tax expense recoveries of $180.012 million, $192.570 million, and $208.503 million, respectively. (Xcel)

- Approve Xcel's 2022-2024 property tax expense recoveries of $165.930 million, $169.889 million, and $173.946 million, respectively which results in a 2022-2024 revenue requirement reduction of $14.082 million, $22.681 million, and $34.107 million, respectively. (Department, ALJ)

- Approve the property tax true-up mechanism for the duration of the MYRP. (Xcel, Department, ALJ)

- Approve the Department's proposal to cap the property tax true-up so that surcharges may not exceed 5% of the Department's recommended property tax level. (Department proposed but later withdrew)

K. Income Tax Tracker Amortization

Staff: Christine Pham

1. Issue

Should the Commission approve the Company's request for the recovery of income tax tracker amount, amortized over three years in the amount of $2,105,000 each year, or reject them as recommended by the Department?

2. Xcel Energy – Direct

The Company had tax audits with the IRS and the Minnesota Department of Revenue for tax years ended 2010 through 2016. As a result of the audits, the Company had to pay additional taxes and interest for tax years 2010 through 2016. The Company stated the Commission authorized deferred accounting status of both tax credits and debits in the past rate case.[184] Therefore, the Company proposed to recover its income tax tracker amount over the MYRP period. The table below summarizes the Calculation of Revenue Requirements with the effect of income tax amortization amount $2,015 million for year 2022 to 2024 provided by the Company.

Table 29 : Calculation of Revenue Requirements with the effect of income tax amortization

	Income Tax Tracker ($ 000) 2022[185]	**Income Tax Tracker ($ 000) 2023[186]**	**Income Tax Tracker ($ 000) 2024[187]**
Amortization	$ 2,015	$ 2,015	$ 2,015
Federal and State Income Tax	($ 612)	($ 599)	($ 586)
Total Expense	$ 1,403	$ 1,416	$ 1,429
Net Income	($ 1,403)	($ 1,416)	($ 1,429)
Calculation of Revenue Requirements			
Rate Base	$ 5,036	$ 3,022	$ 1,007
Require Operating Income	$ 353	$ 212	$ 71
Operating Income	($ 1,403)	($ 1,416)	($ 1,429)
Income Deficiency	$ 1,756	$ 1,628	$ 1,500
Revenue Deficiency	**$ 2,464**	**$ 2,284**	**$ 2,105**

3. Department of Commerce – Direct

The Department disagreed with the Company's request to include the $6,043,726 income tax

184 Ex. Xcel-80 at 90 (Hamala Direct) also See Docket No. E002/GR-92-1185/ M-93-1328/ M-04-1605/ M-05-1471/ M -12-961

185 Ex. Xcel-80 – Schedule 11a p.2 (Hamala Direct)

186 *Id* – Schedule 11b p.2 (Hamala Direct)

187 Id – Schedule 11c p. 2 (Hamala Direct)

amortization in rate base and recover it over the 2022-20244 three-year amortization period. The Department made comments that the 2016 period was set in its last rate case in Docket No E-002/GR-15-826, which was a settlement for the test years 2016 to 2019, so the additional income tax expenses fall outside the relevant test years (2022 to 2024 for the MYRP and 2022 to 2026 for the five-year forecast). The Department added that allowing Xcel to come back for more does not encourage efficient management. Although the Commission authorized deferred accounting for both tax credits and debits, the Company did not request deferred accounting prior to the rate case as the Commission's Order required.[188]

Addition, The Department stated that the total federal and state taxes Xcel paid from 2010 to 2021 was $84.4 million; however, during that time it collected $196.982. The Department is concerned that ratepayers have already paid in rates significantly more (over $112 million) in federal and states taxes than Xcel paid for the period 2010 to 2021.[189]

Therefore, the Department recommended the Commission deny the Company's proposal to include the past years' income taxes in this current rate case and reduce revenue requirements by the following amounts: [190]

- 2022 - ($2,464,000).
- 2023 - ($2,284,000).
- 2024 - ($2,105,000).

4. Xcel Energy – Rebuttal

The Company disagreed with the Department's recommendation and argued that the request in this rate case resulted in a net expense to be recovered from customers, but the Company has included benefits received in this rate case and prior rate cases. For example, in the previous Docket No. E-002/GR-10-971, the Company said it provided a net benefit to customers of approximately $3.6 million and in Docket No. E-002/GR-12-961, the Company collected approximately $1.3 million.[191] The Company noted it has been returning benefits to customers since the 1992 rate case decision and this has been an ongoing practice. Federal and state income tax audits often take years to complete, and adjustments change over the course of the audits. The Company claimed the audits that drove the tax tracker adjustments concluded between the end of 2017 and 2020 and this rate case was the first opportunity to request return of benefits or recovery of costs.[192]

Additionally, The Company said the Department's comparison of income tax paid by the Company and taxes collected in the cost of services is inappropriate. The Company explained

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188 Ex. DOC-21 at 82 (Campbell Direct)

189 *Id* at 83-84

190 Id at 85

191 Ex. Xcel-51 at 52 (Halama Rebuttal)

192 Ex. Xcel-51 at 54 (Halama Rebuttal)

for the purpose of setting rates, it calculated the tax expense as though it had used a straight-line book depreciation method. This approach is required to maintain compliance with the normalization rules set forth by the Internal Revenue Code (IRC), Treasury Regulations, and related guidance provided by the IRS. However, when paying federal income taxes to the IRS, the Company used various forms of accelerated depreciation allowed under the IRC. The Company stated that, since it took an aggressive tax position which is reflected in rates, it should be allowed to recover income tax expense portions from customers that, because of a tax audit, were not paid to the IRS until a later time. This leads to a deferred tax liability, which is used as a dollar-for-dollar reduction to rate base. This reduction to rate base affords customers the time value of money benefit of having to pay taxes to the Company before they are paid to the IRS.[193]

Lastly, the Company pointed out the Department used the adjustment amount for 2022-2024 from the Company's Income Statement Adjustment, but those were based on the last authorized capital structure as opposed to the current proposed capital structure. The Company revised its adjusted Income Tax Tracker Amortization using current proposed capital structure for year 2022 to 2024 and submitted a new schedule. [194]

5. Department of Commerce – Surrebuttal

The Department noted the Company's argument about its aggressive tax position and agreed that it leads to timing differences between tax and book/rates. The Department stated that, due to significant tax legislation and tax benefits provided to the utility, the utility is never going to pay as much tax expense as it is collecting from ratepayers. Additionally, the Department pointed out that the income taxes were set as representative O&M expense for each test year, and it remains in place until the Company files its next rate case. The purpose of that is to incentivize the Company to manage its costs in between rate cases. Therefore, the Department argued that by allowing a true-up for 2016 taxes (which was part of a settlement for the 2016-2019 test years) in this current rate case is unreasonable. Furthermore, between 2010-2021 ratepayers have already paid significantly more taxes in their rates than the Company actually paid. Therefore, the Company should not receive a tax tracker allowing it to recover tax expenses outside the test years of the current rate case.[195] The Department acknowledged the issue about the adjustment amounts that they used from the Company's direct testimony and corrected these amounts for this tax tracker issue.[196] Consequently, the Department continued to recommend denial of the Company's proposal to recover past years' income taxes in this current rate case which reduces both rate base as well as Income Tax Tracker Amortization expenses on the income statement by $2.492 million in 2022, $2.300 million in 2023 and $2.110

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193 *Id*

194 Ex. Xcel-51 Schedule 4 (Halama Rebuttal)

195 *Id*

196 Ex.DOC-23 Schedule NAC-S-1 page 1, line 21 (Campbell Surrebuttal)

million in 2024.[197]

6. Administrative Law Judge Report

The Administrative Law Judge recommended the Commission deny the Company's request to recover 2010-2016 income tax audit costs and adopt the Department's recommendation to reduce 2022-2024 revenue requirements.

The ALJ found:

> 387. The Judge recommends that the Commission deny Xcel's request to recover costs arising from the income tax audits with the IRS and the DOR for tax years ended 2010 through 2016.
>
> 388. The Judge recommends that the Commission adopt the Department's corresponding adjustment to Xcel's revenue requirement, as follows:

2022	2023	2024	2025	2026
$(2,492,000)	$(2,300,000)	$(2,110,000)	--	--

7. Exceptions to ALJ Report

The Company took exceptions to the ALJ's recommendation and continued to request for the recovery of its income tax tracker amount over the MYRP period. The Company said the ALJ recommendation is inconsistent with long-standing practice of truing up income tax amounts. Furthermore, the Company stated that, if the Company were not allowed to recover audit differences, it would be better off being less aggressive on tax policy to ensure it did not under-recover income tax amounts from customers.[198]

8. References to the Record

Xcel-80 at 90 and Schedule 11 (Halama Direct)
Xcel-82 at 51-55 (Halama Rebuttal)
DOC-21 at 81-85 (Campbell Direct)
DOC-23 at 53-59 (Campbell Surrebuttal)
ALJ Report, pp. 70-73
Xcel Energy, Exceptions to ALJ report, p. 48-49

9. Staff Analysis

Staff notes that the Company continued to dispute the Department and ALJ's recommendation.

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[197] These adjustment revenue requirement amounts for 2022-2024 were not spelled out on Ms. Campbell's Surrebuttal but provided on Schedule 1 (NAC-S-1) page 1, line 21.

[198] Xcel Energy Exceptions at 49

The Company's argument was focused on the audit results and timing are being outside of its control and this rate case was the first opportunity to request for the recovery of additional tax costs.

Staff recognizes that the Company had enough time to, as previously ordered in its 1992 rate case, file a deferred accounting request prior this rate case but failed do that. Staff agrees with the Department's point of view regarding the purpose of developing a rate case test year is to determine the utility's representative cost of service. Past years' O&M expenses are often higher or lower than approved amounts; however, allowing the utility to come back for more does not encourage efficient management.

10. Decision Options

- Approve Xcel's request to recover its income tax tracker amount which results in an annual 2022-2024 amortization expense of $2,105,000. (Xcel)

- Deny Xcel's request to recover its income tax tracker amount which results in a 2022-2024 revenue requirement reduction of $2.492 million, $2.300 million, and $2.110 million, respectively. (Department, ALJ)

L. South Dakota Aurora Cost Amortization

Staff: James Worlobah

1. Issue

Should the Commission approve Xcel's request to recover deferred costs for the difference between the contracted power purchase agreement price and South Dakota Public Utilities Commission proxy price?

2. Xcel Energy – Direct

Xcel proposed recovery of a portion of the Aurora Power Purchase Agreement (PPA)[199] that was denied by the State of South Dakota. For a background about this proposal, the Company stated that the Commission selected a solar project to be developed by Aurora and then approved a PPA between the Company and Aurora. The Company related that it opposed this project due to its high cost; and was disputed by the South Dakota Public Utilities Commission (SDPUC) in Docket No. EL16-037 as being too expensive. Furthermore, the SDPUC prohibited the Company from recovering the full South Dakota portion of Aurora and limited recovery from South Dakota ratepayers to an energy proxy price (derived from the system average cost of fuel and purchased power), with no capacity component.[200]

The Company therefore requested authorization to recover the difference between the

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[199] Aurora's PPA was approved in the Commission's August 20, 2015 Order, Docket No. E-002/M-15-330.

[200] Chamberlain Direct, at 38, 13-22.

contracted PPA and the SDPUC proxy price for the period January 1, 2017 (the date the SDPUC denied recovery) to January 1, 2022. The Company requested recovery of these costs over the two-year period of January 1, 2022 to December 31, 2023 and, beginning January 1, 2024, then to include this portion of Aurora's cost in the FCA.[201] Given the background referenced above, Xcel stated that recovery of this portion of the cost of the Aurora PPA from Minnesota customers is reasonable and appropriate.

The Company observed that this adjustment reflects actual PPA costs through June 30, 2021, and budgeted PPA costs through December 31, 2023 in excess of the energy proxy price referenced above.[202] The total accumulated balance over the seven years is then amortized over 24 months. Xcel noted that this adjustment impacts the MYRP Forecast revenue requirements by the amounts shown on:

- Schedule 10, page 1, row 43, column 12;
- Schedule 11, page 2, row 41, column 22;
- Schedule 12, page 1, row 40, columns 5 through 7;
- Volume 4, Section VIII Adjustments, Tab A34, Aurora Deferral;

3. Department of Commerce – Direct

The Department noted that denied costs for the seven-year period was $5,212,118 which, when amortized over two years results in a 2022-2023 $2,606,059 annual amortization expense included in rate base.[203] The Department pointed out that the Commission addressed this issue after the North Dakota Public Service Commission denied disallowed costs for the Aurora PPA,[204] and concluded that Xcel did not meet its burden to establish that it is reasonable to recover the Aurora PPA's North Dakota-related costs from Minnesota ratepayers and denied the Company's petition.[205] The Department noted the Commission's North Dakota Order was clear that the driving force behind the project was not meeting renewable energy objectives but cost-effectively addressing the forecasted, system-wide capacity need[206].

The Department further asserted that the facts for the South Dakota Aurora cost deferral are not materially different than North Dakota Aurora costs the Commission denied. As a result, the Department recommended denial of Xcel's request to recover the South Dakota Aurora deferred costs of $5,212,118 or $2,606,059 amortization expense, plus the amount included in rate base for 2022 and 2023 test years. Additionally, the Department also recommended that the Commission deny Xcel's request to include the South Dakota Aurora deferred costs in the FCA beginning January 1, 2024.

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201 *Id*, pages 38-39, 24-27 and 1-2.

202 *Id*, at 88, 18-23.

203 Campbell Direct, at 60, 11-17.

204 Commission's April 13, 2016 Order, Docket No. E-002/M-15-330.

205 Campbell Direct, at 62, 2-6.

206 *Id.*, at 62, 7-12.

4. Xcel Energy – Rebuttal

Xcel continued to request recovery.

5. Department of Commerce – Surrebuttal

The Department reaffirmed its recommendation to deny Aurora's deferred costs.[207]

The recommended overall adjustment results in a revenue requirement decrease of ($2,857,000) for 2022 and ($2,689,000) for 2023.

The Department reiterated that Xcel's request to include, beginning January 1, 2024, South Dakota Aurora's costs in the FCA should be denied.[208]

6. ALJ Report

The ALJ noted the Department's assertion that Xcel's proposal was at odds with fundamental cost causation principles, and that Xcel had failed to request deferred accounting for 2017–2021 costs it sought to include. Last, the Department pointed to the fact that Xcel had agreed in a settlement (with the South Dakota Commission)[209] to forgo the South Dakota costs.[210]

The ALJ noted that the Company argued the Commission's 2016 denial of North Dakota related cost recovery should not be a basis for denying recovery of its proposed South Dakota-related recovery. It pointed to a detail in the North Dakota Aurora Costs Order: Xcel had agreed with Aurora that, in exchange for waiving Xcel's termination right, Aurora would reimburse Xcel if neither the North Dakota nor the Minnesota commissions allowed recovery of the North Dakota costs. The ALJ however observed that there is no evidence that the Company has a market-based means to recover the South Dakota costs in the event of denial in this proceeding.

In summary, the ALJ Report presented the following findings with a subsequent recommendation:

> 398. Accordingly, for the reasons cited by the Commission in its North Dakota Aurora Costs Order, Xcel has not met its burden to demonstrate that recovering from Minnesota ratepayers' costs attributable to South Dakota ratepayers would be just and reasonable. Xcel has not shown that jurisdictional-cost-allocation principles or practices have fundamentally changed, or that the Aurora solar project is a reasonable way to meet the needs of only Minnesota ratepayers.

[207] ALJ Report, at 68

[208] Campbell Surrebuttal, at 41-42, 19-21 and 1-4.

[209] See Campbell Direct, Schedule 19.

[210] ALJ Report, at 68.

399. In addition, Xcel has not established that its South Dakota settlement was consistent with Minnesota ratepayers' interests, or that it reflects a just and reasonable cross-jurisdictional allocation of system costs for the Aurora project. Denial of recovery of a portion of Aurora costs in South Dakota came not as a litigated result, but from a negotiated settlement agreement. The South Dakota Commission approved Xcel's agreement to relieve South Dakota customers of those costs. Xcel's decision to enter the agreement in South Dakota was voluntary and—because it now serves as a basis for Xcel's seeking recovery from Minnesota ratepayers in this proceeding—likely not made with the interests of Minnesota ratepayers in mind. Xcel settling the issue of recovery in South Dakota provides an independent basis to conclude that Xcel has not met its burden to establish the reasonableness of recovering South Dakota costs from Minnesota ratepayers.

400. The Judge recommends that the Commission deny Xcel's South Dakota Aurora cost recovery proposal.

401. The Judge recommends that the Commission adopt the Department's recommended adjustment to Xcel's revenue requirement, as follows:

2022	2023	2024	2025	2026
$(2,857,000)	$(2,689,000)	--	--	--

7. References to the Record

Xcel, Greg Chamberlain Direct, pp. 38-39.
Xcel, Benjamin Halama Direct, p. 88.
DOC, Nancy A. Campbell Direct, pp. 60-62.
DOC, Nancy A. Campbell Surrebuttal, pp. 41-42.
ALJ Report, p. 68.

8. Staff Comments

Staff is in agreement with the ALJ and the Department that the Company has not established that its South Dakota settlement was consistent with Minnesota ratepayers' interests, or that it reflects a just and reasonable cross-jurisdictional allocation of system costs for the Aurora project. Additionally, the proposal is clearly at odds with fundamental cost causation principles.

In view of the above discussion, staff view aligns with the ALJ and the Department's recommendations, that the Commission deny Xcel's South Dakota Aurora cost recovery proposal.

9. Decision Options

- Approve Xcel's request to recover Aurora's deferred costs for the difference between the contracted power purchase agreement price and South Dakota Public Utilities

Commission proxy price. (Xcel)

- Approve Xcel's request to recover, through the FCA starting January 1, 2024, Aurora's deferred costs for the difference between the contracted power purchase agreement price and South Dakota Public Utilities Commission proxy price. (Xcel)
- Deny Xcel's request to recover Aurora's deferred costs for the difference between the contracted power purchase agreement price and South Dakota Public Utilities Commission proxy price which results in a 2022-2023 revenue requirement reduction of $2.857 million and $2.689, respectively. (Department, ALJ)
- Do not approve Xcel's request to recover, through the FCA starting January 1, 2024, Aurora's deferred costs for the difference between the contracted power purchase agreement price and South Dakota Public Utilities Commission proxy price. (Department, ALJ)

M. Business Incentive and Sustainability (BIS) Rider Amortization

Staff: Eric Willette

1. Issue

Should COVID relief and recovery expenses in the BIS Rider be amortized, or should the costs be denied?

2. Xcel – Direct

In Dockets No. E-002/M-20-436 and E-002/M-20-662 the Commission approved temporary discount programs related to COVID and/or civil unrest. The Company is requested authorization to recover the cost deferrals of those program over the MYRP.[211]

3. Department of Commerce – Direct

Since, as part of its 2020 and 2021 stay-out proposals, Xcel had sales true-ups for both years, the Department was concerned about the possibility of the Company over-recovering the BIS discount costs.[212] Also, at the time of direct testimony, the Company had not provided the cost/benefit analysis that was required before it could get cost recovery. Therefore, the Department recommended denial of the $2,613,616 business discounts which result in an annual revenue requirements adjustment of $871,205 plus related return.[213]

4. Xcel Energy - Rebuttal

The Company submitted the cost-benefit analysis after the Department raised the issue. The Company explained that revenues are calculated at standard base rate and the discounts are

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[211] Ex. Xcel-79 at 89 (Halama Direct).

[212] Ex.DOC-21 at 78 (Campbell Direct).

[213] *Id* at 79-80.

not recovered through the yearly sales true-up.[214]

5. Department of Commerce - Surrebuttal

The Department agreed with the provided cost-benefit analysis that the Company submitted; however, the Department continued to recommend its $2,613,616 disallowance because the Company only provided testimony without actual figures to show that the discounts were not recovered through the yearly sales true-up. The Department also continues to support removing revenue requirements, which include the $871,205 annual expense and related return:

- 2022 of $1,077,506.
- 2023 of $994,593.
- 2024 of $912,422.[215]

6. Xcel Energy - Brief

In the Company's brief, the Xcel continued to explain how the Department's concern is misplaced by stating four ways the Department is wrong with their understanding. First, the Commission's BIS Rider Order specifically says deferred recovery will be done in next rate case. This means the Company was operating with the understanding that the deferral was not to be recovered in the sales true-up.[216] Second, due to the Department's objections, the Order has the language to bring recovery for BIS Rider in the next rate case .[217] Third, the Company explained their calculations as amounts different from test year base revenue and actual revenues using the calculation of standard base rates and customer counts, so the discounts from BIS Rider would not be in true-up calculations.[218] Finally, the Department's concerns are misplaced since the only time Ms. Campbell brought up the expected quantitative analysis was in Surrebuttal.[219]

7. Administrative Law Judge Report

The ALJ found:

> 410. Ms. Peterson's testimony is credible and, together with the Company's supplemented response to information request 1130, is sufficient to support a conclusion that the Company did not recover the BIS Rider Discounts through the sales true-up. Accordingly, the reasonableness of Xcel's recovery of these discounts is supported by

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214 Ex. Xcel-90 at 11 (Paluck/Peterson Rebuttal).

215 Ex. DOC-23 at 52 (Campbell Surrebuttal).

216 Xcel Brief at 80.

217 *Id* at 81.

218 *Id* at 82.

219 *Id* at 83.

substantial record evidence. The Department has offered only speculation to contradict Xcel's evidence or to provide support for its theory of potential double recovery.

411. The Judge recommends that the Commission allow recovery of the BIS Rider Discounts.

412. The Department argued in its Initial Brief that the Company did not establish why the costs should be recovered from the classes that benefitted from the discount. However, the Company is not requesting to recover the discount credits from all classes, but rather from the demand classes, as agreed to in the BIS Rider Docket. Accordingly, in any relevant compliance filing in this proceeding, the Company should ensure that the developed revenue requirement and revenue allocation account for recovery of these discounts solely from the demand classes.

8. Department of Commerce – Exceptions to ALJ Report

The Department conceded and no longer recommends an adjustment.[220]

9. References to Record

Xcel, Halama Direct, p.89
DOC, Campbell Direct, pp. 77-80
Xcel, Halama Rebuttal, p.39
Xcel, Paluck Rebuttal, p. 11
DOC, Campbell Surrebuttal, pp. 50-53
DOC, Soderbeck Surrebuttal, pp. 32-33
Xcel, Brief, pp.77-83
ALJ Report, pp.70-72, Findings 402-412
DOC, Exceptions to ALJ Report, pp. 48-49

10. Decision Options

- Approve Xcel's request to amortize deferred COVID-related BIS Rider expenses. (Xcel, ALJ, DOC)

N. Other Amortization Expenses - Rate Case Expenses, LED Deferrals, and Deferred Pension Expenses

Staff: Ashley Marcus

1. Issue

What amortization period should the Commission approve for rate case expense, LED deferrals and deferred pension expenses?

[220] DOC Exceptions at 49.

2. Department of Commerce – Direct

Amortization distributes the costs for the use of long-lived assets over a fixed period. Amortization expense reduces operating income on the income statement. Xcel proposed an amortization period of 3 years for LED street lighting, rate expense and deferred pension expense. The Department recommended an amortization period of 4 years or the MYRP term to be approved by the Commission.

3. Suburban Rate Authority – Direct

Th Suburban Rate Authority (SRA) recommended extending the amortization period by one year to mitigate rate shock of proposed increases for LED deferrals.

4. Xcel Energy – Rebuttal

Xcel acknowledges that the amortization period is usually set based on the time rates are anticipated to be in effect. Xcel supports a three-year MYRP and amortization over the same period of a three years.

5. Department of Commerce – Surrebuttal

The Department continued to recommend matching the amortization period to the rate case period. Since Xcel is requesting a three-year MYRP, the Department supports a three-year amortization period unless the Commission approves a different rate period.

6. Suburban Rate Authority – Surrebuttal

Xcel's initial filing amounts for the LED Deferral was decreased to reflect the passage of time. SRA did not comment specifically on amortization but agreed to Xcel's updated decreased amounts based on a three-year MYRP.

7. Administrative Law Judge Report

The ALJ Found:[221]

> 413. With respect to rate case expense, deferred pension expense, and LED street light deferral amortizations, the parties appear to agree that the appropriate amortization period is the term of the MYRP. The Company has indicated it is not seeking to implement an MYRP of longer than three years.
>
> 414. Matching the amortization period to the term of the MYRP will ensure the Company will recover its expenses fairly over the period of the MYRP.
>
> 415. The Judge recommends that the Commission approve amortization periods for rate case expense, deferred pension expense, and LED street light deferral that match the

[221] ALJ Report at 72

term of the MYRP approved by the Commission.

8. References to the Record

DOC – 3 & 4 at 32-36 (Soderbeck Direct)
SRA – 1 at 3 – 15 (Bride Direct)
Xcel – 82 at 38 (Halama Rebuttal)
DOC – 5 at 3-4 (Soderbeck Surrebuttal)
SRA – 3 at 2 – 11 (Bride Surrebuttal)

9. Decision Options

- Approve Xcel's amortization period of three years for LED street lighting, rate expense and deferred pension expense. (Xcel, Department, ALJ)

[If approved MYRP is different than three years:]

- Approve Xcel's amortization period to match the term of the MYRP for LED street lighting, rate expense and deferred pension expense. (Xcel, Department, ALJ)

O. Luverne Wind2Battery System

Staff: Andrew Larson

1. Issue

Should Xcel's proposal to recover Luverne Wind2Battery costs be approved?

2. Background

Xcel initiated the experimental Wind2Battery project to learn from and test the concept of storing wind-generated electricity and discharging it onto the grid.[222] The project was approved for cost recovery in the RES Rider in the Commission's September 14, 2009 Order in Docket No. E-002/AI-09-379.

Partially funded with a $1,000,000 grant from the Company's Renewable Development Fund (RDF), the project focused on the application of an experimental sodium-sulfur battery technology as a utility-scale solution to store wind energy.

The Wind2Battery 1MW system consists of 20 50-kilowatt modules with a storage capacity of 7.2 MWh. Each module uses sodium-sulfur (NaS) storage technology.[223] The system weighs about 80 tons and takes the space of two shipping containers. The benefits of this technology are the high number of charge-discharge cycles, scalability, and responsiveness to system

[222] Xcel -- 66 at 39-48 (Moeller Direct).
[223] Xcel – 38 at 70-71 (Capra Direct).

changes, among others.

The project included several other research partners such as the University of Minnesota. Research questions included the role of storage in improving wind farm economies and the integration of wind resources into the grid under different conditions. The Company explained that the direct wind energy storage project was successful and provided many benefits to interested parties and the public.

In 2018, the battery system vendor notified Xcel that the model was entering legacy status, meaning that parts and service would soon become unavailable.

3. Xcel Energy - Direct

Xcel stated that from the project's beginning, the net cost of dismantling and savage value was assumed to be zero.[224] However, since this technology was new and not widely employed, firm estimates for recycling and disposal were not available. The industry and the Company believed that recycling options would arise to offset the cost of disposal of hazardous materials.

Xcel conducted three system-wide dismantling studies in 2010, 2015, and 2020. The Luverne Wind2Battery project was such a small share, less than 0.1 percent of Xcel's total portfolio, that it did not warrant the cost of an outside dismantling study by an outside consultant, TLG Services. Furthermore, TLG Services did not provide estimates of this type of battery.

Once Xcel learned that the battery was going to enter legacy status, it sought recycling options, but none were found. Manufacturer representatives estimated the cost of removal and disposal to be $5.6 million in 2019. The Company disclosed this information in its 2020 Remaining Lives Docket.

The Company expected to commence the disposal project in 2023.

Xcel suggested that, given the fact that there was virtually no industry record of reference, such an estimate for an experimental battery was reasonable. Dismantling firms had no experience with this new technology. Additionally, the Company's confidence in an operating life of 15 years was low due to the high uncertainty of the battery's effectiveness. Therefore, end of life adjustments to net book value and remaining life should be expected for experimental equipment.

Xcel proposed that reserves from Other Production plants be transferred to the Luverne battery reserve account.[225] Since the battery is such a small share of the Company's total end-of-life reserves, the effect on ratepayers would be minimal. Cutting edge pilot projects benefit from the flexibility of their end-of-life reserve status because of their uncertain outlooks. Any remaining balance in the Wind2Battery reserve would be reallocated to other Company assets, thus lowering their depreciation expense.

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[224] Xcel – 66 at 42 (Moeller Direct).

[225] Xcel – 66 at 45-47 (Moeller Direct).

4. Department of Commerce – Direct

The Department noted that the battery was installed in 2009 with a 15-year life and a zero net-salvage value.[226] Thus, only the $5 million initial investment was to be depreciated over the asset life, and that the estimated $5.6 million disposal costs, over twice the original cost, were excluded.

Over its ten years of operation, Xcel had numerous opportunities to research potential disposal costs. Battery system events along the way should have alerted Xcel to the need to research disposal options and costs. For example, in 2012 the Wind2Battery system was removed from service for a year due to a fire in Japan. Also, in 2015, the wind farm supplying electricity filed for bankruptcy. Finally, as Xcel noted, in 2018 the system entered legacy status.

Although Xcel indicated in its 2010 Remaining Lives Review that a battery system dismantling study would be completed it was, in fact, never done in this or the next two reports in 2015 or 2020.

In 2022, Xcel's engineering consultant estimated the cost of disposal to range from $2.14 million to $5.26 million, depending on the condition of the batteries.[227]

The Department recommended the Commission deny Xcel's $5.6 million disposal cost recovery because Xcel failed to update its initial zero net salvage value as time passed and the disruptive events listed above occurred.

5. Office of the Attorney General – Direct

The OAG raised four concerns regarding the Company's proposed recovery of battery disposal costs.[228] First, the proposal indicates a problem of intergenerational transfer inequities. Second, since the Company did not start to depreciate expected disposal costs earlier in the battery's lifetime, those who benefited did not pay their share of the cost. Third, no disposal vendor has given a firm commitment to do the work which would provide support for Xcel's cost estimate. Fourth, ratepayers are still exposed to increasing cost estimates since the Company does not yet have a firm commitment for disposal.

Furthermore, although the project generated general technical benefits, benefits to ratepayers ceased in 2019. While Xcel recovered the cost of the battery by this time, it also could have recovered the cost of disposal. It would have been reasonable for Xcel to begin a review of disposal options in the course of these events.

Given the degree of uncertainty over the complexity of the process, the Company could have taken a more proactive approach to planning for disposal. Instead, Xcel depended on the word of the battery vendor that recycling options would materialize.

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[226] DOC – 7 at 4-11 (Skayer Direct).

[227] Xcel – 39 at 19 (Capra Rebuttal).

[228] OAG – 2 at 19-28 (Lee Direct).

The OAG argued that the small (less than 0.1 percent) asset share of the project is no excuse to avoid the cost estimation of disposal due to the greater uncertainty and complexity of the battery system.[229] Given the lack of firm disposal vendor commitments, the uncertainty of total cost and timing still rests on ratepayers. Thus, the OAG recommended the Commission deny Xcel's cost recovery request.

6. Xcel Energy – Rebuttal

Xcel responded to the OAG by explaining that the search has been challenging because of the lack of standardized procedures for disposal of sodium sulfur battery cells.[230] Also, as of the date of the filing of Rebuttal Testimony (November 8, 2022), the Company's consultant had identified two licensed facilities in Wisconsin and Texas that may be able to recycle the battery cells. Depending on whether the batteries are leaking and therefore need special handling during transport, the consultant estimated a disposal cost ranging from $2.14 million to $5.26 million.

the Company further argued that it is entitled to battery disposal cost recovery because the experimental nature of the project advanced research and understanding of storage technologies.[231] Since the project advanced the frontier of knowledge, it also therefore provided a demonstrable benefit to customers.

Moreover, according to Trade Secret information from 2011, parties knew the experimental nature of the project also included the challenge of disposal.

7. Department of Commerce – Surrebuttal

The Department noted that Xcel was requesting a cost recovery amount which was higher than its consultant's upper limit of $5.26 million.[232] The Company proposed to reallocate any remaining balance back to other assets. Since Xcel did not provide sufficient cause for the ratepayers to bear this extra burden, the Department concluded recovery of such an extra remaining balance is not justified.

Finally, the Department recommended the Commission deny Xcel's requested reserve allocation, which included the overage above the worst-case, upper limit amount estimated by its consultant.[233] Table 30 summarizes the annual amounts of the excess requested reserve allocation.

[229] OAG – 2 at 24-26 (Lee Direct).
[230] Xcel – 39 at 16-20 (Capra Rebuttal).
[231] Xcel – 68 at 10-16 (Moeller Rebuttal).
[232] DOC – 8 at 12-17 (Skayer Surrebuttal).
[233] DOC Briefing at 90.

Table 30 - Luverne Wind2Battery Disposal Costs Revenue Requirement Impact ($000s)

2022	2023	2024	2025	2026
$(217)	$(182)	$(156)	$(142)	$(121)

8. Office of the Attorney General – Surrebuttal

The OAG stated that Xcel was in control of the process to secure a vendor and estimate cost recovery.[234] It is unknown to the OAG why the Company waited until the 2020 Annual Review of Remaining Lives petition to request recovery of disposal costs.

On the other hand, ratepayers had no control over the timetable of when to start researching disposal options, and when to file a request for recovery. The Company could have more prudently chosen to investigate disposal options while the battery system was still in operation. Knowing the wind2battery system was experimental, Xcel should have started to study the disposal options and costs up to nine years earlier, in 2011.

Additionally, the Company could have chosen to recovering disposal costs along with asset costs earlier in the battery's operating life. Ratepayers, therefore, should not be held accountable for Xcel's delay in collecting disposal costs and investigating disposal options. Thus, the Commission should deny recovery of disposal costs.

9. Xcel Energy – Initial Brief

Xcel stated that, given the information known or should have been reasonably know, its action and judgement at the time the decisions were made was reasonable.[235] It is inappropriate to depend on hindsight in a prudence review.

10. Administrative Law Judge Report

The ALJ recommended that Xcel be allowed to recover only the base dismantling amount of $2.14 million, the scenario in which the batter cells are not leaking and thus no special handling is needed. Due to the experimental nature of the project, Xcel should have acted more prudently by initiating cost recovery earlier in the project's life and with a more conservative estimate.[236]

The ALJ recommended the Commission disallow the Company's reserve reallocations, and instead adopt the Department's proposed adjustments to Xcel's revenue requirement, as follows in the table above.[237]

The ALJ also recommended the Commission disallow the associated depreciation expense of

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[234] OAG – 9 at 19-22 (Lee Surrebuttal).

[235] Xcel Brief at 153-154.

[236] ALJ Report, 436-439.

[237] ALJ Report, 440-442.

$300,000 for the Minnesota Jurisdiction in the 2022 Test Year.

Alternatively, the Commission could authorize a reserve allocation of $2.14 million and require the Company to return any remaining reserves to other assets if actual cost recovery is lower that the reallocated amount.

The ALJ found:

434. The Company has not met its burden to establish the reasonableness of a reserve reallocation of $5.6 million for decommissioning the Luverne Wind2Battery System. The dismantling cost study provided by the Company establishes that the "probable" cost is expected to be $2.14 million, with a possible "worst case" upper bound of $5.26 million. Neither the Department nor the OAG meaningfully challenge the dismantling cost study's cost estimate.

435. The Company has met its burden to demonstrate that $2.14 million is a reasonable cost to dismantle the system. The actual cost may exceed that amount, but the prudence of any amount above the dismantling cost study's "expected total" has not been established here. Exceeding the expected total could occur if there is damage or leakage of the batteries, and there is no way to determine on this record, in advance, if such damage or leakage, should it occur, might be the result of imprudence. The "upper bound total" in the dismantling cost study also includes unexplained departures from assumptions in the "expected total," such as a doubled percentage reserved for contingency.

436. However, the Company has not met its burden to establish that it would be reasonable to recover removal costs from ratepayers. The Department and the OAG have established that Xcel failed to update the system's salvage value once during its ten-year useful life. Xcel has an obligation to provide the Commission with five-year updates on salvage rates.

439. Xcel's argument that the pilot's research benefit to ratepayers justifies recovering the removal costs from ratepayers is unpersuasive. The rationale is unsupported by typical ratemaking principles or generally accepted utility accounting practice, which strive to provide for recovery for depreciation of utility property while it is "used and useful in rendering service to the public." The Luverne Wind2Battery System, as utility property, is no longer used or useful in rendering service. The insights gained from the pilot are distinct from the asset, have not been quantified, and do not justify ongoing recovery for the asset from ratepayers.

440. The Judge recommends that the Commission disallow the requested reserve allocation for the Luverne Wind2Battery removal project, and adopt the Department's proposed adjustment to Xcel's revenue requirement as follows:

2022	2023	2024	2025	2026
$(217)	$(182)	$(156)	$(142)	$(121)

441. The Judge also recommends that the Commission adopt the OAG's recommendation to disallow the associated depreciation expense of $300,000 (MN jurisdiction) in the 2022 test year and amounts to be identified by the Company in the 2023 and 2024 plan years.

442. Alternatively, should the Commission disagree and find that it is reasonable to allow the proposed reserve reallocation, the Judge believes it would be appropriate to authorize a reserve reallocation of $2.14 million and require the Company to perform the proposed "inverse reverse allocation" of reallocated amounts if actual costs are lower than the amount reallocated.

11. Exceptions to the ALJ Report

Xcel requested that the Commission approve the ALJ's alternative recommendation and grant approval for a $2.14 million reallocation.[238]

12. References to the Record

Ex. Xcel – 66 at 39-48 (Moeller Direct).
Ex. Xcel – 38 at 70-71 (Capra Direct).
Ex. DOC – 7 at 4-11 (Skayer Direct).
Ex. Xcel – 39 at 16-20 (Capra Rebuttal).
Ex. Xcel – 66 at 10-16 (Moeller Rebuttal).
Ex. OAG – 2 at 19-28 (Lee Direct).
Ex. OAG – 9 at 19-22 (Lee Surrebuttal).
Ex. DOC – 8 at 12-17 (Skayer Surrebuttal).
DOC Briefing at 90.
ALJ Report, Findings 416-442.
Xcel Brief at 153-154.
Xcel Exceptions at 51.

13. Decision Options

<u>Reserve Reallocation</u>

- Approve Xcel's request to perform a reserve reallocation in the amount of $5.6 million that would shift reserves from the remaining Other Production plants and move them to the Wind2Battery asset. (Xcel)
- Deny Xcel's request to perform a reserve reallocation in the amount of $5.6 million that would shift reserves from the remaining Other Production plants and move them to the Wind2Battery asset. (DOC, OAG, ALJ)

<u>And if decision option W2B 0002 is chosen, then (choose one of the following):</u>

- Approve a reserve reallocation of $2.14 million for recovery of a reasonable cost to

[238] Xcel Exceptions at 51.

dismantle the Wind2Battery system and require Xcel to perform the proposed "inverse reverse allocation" of reallocated amounts if actual costs are lower than the $2.14 million. (ALJ, Xcel alternate)
- Deny recovery of $5.6 million disposal cost. (DOC, OAG)

2022 Test Year Depreciation Expense

- Approve Xcel's 2022 proposed $300,000 depreciation expense. (Xcel)
- Do not approve Xcel's 2022 proposed $300,000 depreciation expense. (OAG, ALJ) [DOC did not comment]

Xcel's Requested Reserve Allocation

- Approve adjustments to Xcel's revenue requirement for the disallowance of Xcel's requested reserve allocation in excess of the worst-case disposal limit, as shown in the table below. (DOC, ALJ) [OAG did not comment]

Luverne Wind2Battery Removal Costs – Revenue Requirement Impact

2022	2023	2024	2025	2026
$217,000	$182,000	$156,000	$142,000	$121,000

P. Beginning Test Year Plant Balance

Staff: Christine Pham

1. Issues

- Should the Commission approve the Company's forecasted beginning of the year balance?

- Should the Commission approve the Department's recommendation to use actual 2022 beginning of the year plant balance?

2. Department of Commerce – Direct

The Department reviewed the Company's 2022 net plant in service[239] which used the average of the beginning of year (BOY) and end of year (EOY) balances for the test year forecasts purpose and disagreed with the Company's use of forecasted 2021 plant balances for 2022 BOY test year. On October 25, 2021, two months prior to the end of 2021, the Company provided a forecasted amount of $9,877,494,000 but at year's end the actual amount was $9,835,166,000. Therefore, the Department recommended the Company to update its calculation by using the actual 2022 BOY rate base balances now available in place of the less-accurate forecasted plant

[239] Net plant in service balances represent the remaining undepreciated portion of plant in service balances upon which a utility is allowed to earn a rate of return.

balances. This update would reduce the Minnesota Electric Jurisdiction revenue requirement by $2,005,000.[240] The Department noted that this consistent with CenterPoint's 2015 rate case[241] which stated that "the Commission found that adjusting balances in light of actual data is reasonable."[242] The Department also pointed out that, based on the Company's July 2022 review, the Company's 2022 capital project for the Transmission Business area had spent $99,433,269 out of the forecasted $304,735,815, thus making unlikely the Company would be able to complete the remaining spend for its 2022 transmission projects.[243]

The Department recommended the Company carrying the update through to the 2022 EOY plant balances. The Department also clarified that this recommendation considers the changes in Construction work in progress (CWIP), Accumulated Deferred Taxes (ADIT) balances, and net plant balances from forecasts to actual.

3. Xcel Energy – Rebuttal

The Company said that, due to the timing of rate case filing was on November 1, 2021, the net investment's actual records was only available through June 30, 2021. Thus, the Company used forecasted the remaining months of 2021. The Company agreed that the forecasted data was higher than the actual 2022 BOY but insisted the recalculation is not necessary because a change in the 2022 BOY balance does not necessarily mean the EOY would also decrease or by the same amount, as proposed by the Department. Any end of year variance could offset any change in the beginning of year balance and the net plant balance included in the test year cost of service is an average of the beginning of year and end of year balance"[244]

4. Department of Commerce – Surrebuttal

The Department disagreed with the Company's claim and pointed out that the Company's updated forecast 2022 EOY rate base amount was $10,171,934,000[245] or $7,074,000 lower than its initial forecast.[246] The Department mentioned that the Company's initial forecast for the 2022 test year did not include capital costs for electric vehicle rebates and the recent forecast includes six months of actual data for 2022 with six months of forecasted data for 2022. Therefore, using the actual balances should be more accurate than using a forecast. As a result, the Department continued to recommend using actual 2022 BOY plant balances which reduces the Minnesota Jurisdiction revenue requirement by $2,005,000.

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[240] Ex. DOC-3 at 43 (Soderbeck Direct)

[241] See Docket No. G-008/GR-15-424

[242] Ex. DOC-3 at 44 (Soderbeck Direct)

[243] *Id* at 46

[244] Ex. Xcel-82 at 26-27 (Halama Rebuttal)

[245] Ex. DOC-5 at 27, line 10 (Soderbeck Surrebuttal) listed wrong updated 2022 EOY amount $10,179,008,000 but on schedule HS-S-9 p. 4 showed correct amount $10,171,934,000.

[246] Ex. DOC-5 HS-S-9 p. 3 (Soderbeck Surrebuttal)

5. Administrative Law Judge Report

The Administrative Law Judge recommended adoption of the Department's recommendation to use actual 2022 Beginning of Year test year rate base thus reducing the revenue requirement.

The ALJ found:

> 449. Using actual, accurate data is preferable to estimates for BOY rate base and Xcel has not shown that its EOY rate base will exceed its initial forecast and offset the under-forecast of its BOY rate base.
>
> 450. The Judge recommends that the Commission adopt the Department's recommendation to adjust the 2022 beginning of year rate base to reflect actual amounts, and the corresponding adjustment to the revenue requirement, as follows:

2022	2023	2024	2025	2026
$(2,005,000)	--	--	--	--

6. References to the Record

Xcel-82 at 26-27 (Halama Rebuttal)
Xcel-82 at 51-55 (Halama Rebuttal)
DOC-3&4 at 41-47 (Soderbeck Direct)
DOC-5 at 25-28 (Soderbeck Surrebuttal)
ALJ report, pp 83-84

7. Staff Analysis

Staff concurs with the Department's recommendation the Company updating its 2022 BOY actual balance which would lead to a more accurate revenue requirement calculation.

8. Decision Options

- Allow Xcel to use its forecasted 2022 beginning of the year plant balance of $9,877,494,000. (Xcel)

- Order Xcel to use its actual 2022 beginning of the year plant balance of $9,835,166.000, which reduces 2022 average rate base by $21.164 million and 2022 revenue requirements by $2.005 million. (Department, ALJ)

Q. Construction Work in Progress (CWIP)

Staff: Christine Pham

1. Issues

- Should the Commission permit the Company to include CWIP in rate base as an average of projected CWIP beginning and ending balances, or exclude it as recommended by the Commercial Group?

- If CWIP is included in rate base, should the Commission adjust the Company's ROE as recommended by the Commercial Group?

2. Xcel Energy – Direct

The Company said Construction Work in Progress (CWIP) is one of the major components of the 2022-2024 MYRP rate base calculation.

Table 31 summarizes the Company's 2022 test year rate base that is calculated by using the average of the beginning of year (BOY) and end of year (EOY) balances.

Table 31 – Xcel's 2022 Rate Base Summary ($000)[247]

Plant	$22,725,537	(Per BCH-1, Schedule 3, Page 1, Line 23)
Reserve	$(10,346,933)	(Per BCH-1, Schedule 3, Page 1, Line 24)
ADIT	$(2,178,105)	(Per BCH-1, Schedule 3, Page 1, Line 32)
CWIP	$436,833	(Per BCH-1, Schedule 3, Page 1, Line 26)
Other Rate Base	$294,039	(Per BCH-1, Schedule 3, Page 1, Line 42)
Rate Base	$10,931,371	(Thousands of dollars)

The Company also provided a breakdown for CWIP information by showing each category's capital expenditure and process of its overall capital budgets. The capital expenditures are the sum of both the construction and removal work, where construction expenditures are part of CWIP, and removal expenditures are part of retirement work in progress (RWIP) in the accumulated depreciation reserve account.[248] The Company said that, except where the Company is allowed to earn a current return, CWIP is included in rate base with an offset of Allowance for Funds Used During Construction (AFUDC) added to operating income.[249] The rate base amount reflects a simple average of projected CWIP beginning, ending balances 2022 test year and corresponding 2023, 2024 end of year CWIP balances. The Company also commented that in its previous MYRP rate case (2016-2019) the CWIP was included and approved by the Commission.

[247] Ex. Xcel-80 at 32 (Halama Direct)

[248] Ex. Xcel-66 at 9, MPM-1 Schedule 2 (Moeller Direct)

[249] Ex. Xcel-80 at 35 (Halama Direct)

3. Department of Commerce – Direct

The Department acknowledged that the Company did provide Construction Work in Progress (CWIP), Accumulated Deferred Taxes (ADIT), and Net Plant balances for the 2022 test year rate base and confirmed that the changes in these components' balances are netted together.

4. Commercial Group – Direct

The Commercial Group (CG) commented that the inclusion of CWIP in rate base charges customers for assets not yet used and violates the matching principle because customers would pay for the assets during a period when they are not receiving benefits from those assets. Although the CG recognized that the Commission has historically allowed the inclusion of CWIP in rate base but said that this practice "shifts the risks to customers that are traditionally assumed by utility shareholders, for which shareholders are compensated through the rate of return elements once the plant is in service. CWIP instead places the risks squarely on the shoulders of customers with no offer of compensation for the use of their money."[250]

CG recommended the Commission not allowing the CWIP be included in the Company's rate base calculation. However, if the CWIP remains in rate base, the CG recommended it be accompanied by an ROE decrease.

5. Xcel Energy – Rebuttal

The Company stated that the CWIP has been included and approved by Commission in previous rate base over the past years and added that CWIP was financed by working capital, or short-term debt and its lower cost is incorporated in the AFUDC. AFUDC is a regulatory method of compensating a utility for the financing costs it incurs during the construction of assets which is allowed to be recovered from the customers. Additionally, FERC allows the inclusion of AFUDC, which includes the financing costs related to the CWIP spent. Thus, if CWIP is removed from rate base, then short-term debt and AFUDC would also need to be removed from the capital structure calculation. The Company stated the amount of CWIP included in rate base cannot be offset with a similar change in the ROE, as there is no direct link between the two items. The Company commented that the CG did not provide any suggested ROE changes or any logical reason and requested for the CG suggestion be dismissed.

6. Administrative Law Judge Report

The Administrative Law Judge recommended denial of the Commercial Group's recommendation to not include CWIP in rate base and adjust the Company's return on equity based upon CWIP's inclusion.

The ALJ found:

> 454. The Commercial Group did not offer evidentiary support for any particular ROE

[250] Ex. CG-1 at 11 (Chriss Direct)

adjustment.

458. The inclusion of AFUDC as an offset, and the cost of short-term debt in the overall rate of return calculation avoids inappropriately placing costs on, or shifting risks to, ratepayers.

459. For these reasons, the Judge recommends that the Commission approve the inclusion of CWIP in the Company's rate base and not adopt the Commercial Group's proposal to adjust the Company's return on equity based upon CWIP's inclusion.

7. References of Record

Xcel-80 at 31-39, 63-64, 95 (Halama Direct)
Xcel-66 at 9-39 (Moeller Direct)
Xcel-28 at 152-155 (D'Ascendis Rebuttal)
Xcel-26 at 11-12 (Johnson Rebuttal)
DOC-3&4 at 42-45 (Soderbeck Direct)
CG-1 at 4-5, 9-11 (Chriss Direct)
ALJ Report, pp. 84-85

8. Staff Analysis

Staff agrees with the ALJ's recommendation to allow the Company to include CWIP in its rate base. This approach is also consistent with past Commission practice.

9. Decision Options

- Approve Xcel's proposal to include CWIP in rate base as an average of projected CWIP beginning and ending balances. (Xcel, ALJ)

- Reject Xcel's request to include CWIP in rate base, or alternatively, decrease approved ROE if CWIP is approved. (Commercial Group)

R. Fault Location Isolation and Service Restoration (FLISR)

Staff: Eric Willette

1. Issues

- Should the Commission approve recovery of capital and O&M expense associated with FLISR for 2022-2024?
- Should the Commission approve allocation adjustments for FLISR?
- Should cost-benefit analysis exclude extreme outage events?
- Should the Commission put in place metrics and performance targets for FLISR and make cost recovery for FLISR partially contingent on achieving those performance targets?

2. Xcel Energy - Direct

The Company stated that FLISR (Fault Location, Isolation and Service Restoration) is a form of distribution automation that helps detect, isolate, and restore electric service to fully functional sections, thereby reducing the duration and number of customers affected by any individual outage.[251] The FLISR application consists of three main components: ADMS for central control and logic, intelligent field devices to detect faults and operate field equipment, and FAN for wireless communications.[252] Fault Location Prediction (FLP) is a subset of FLISR that indirectly considers and leverages sensor data from field devices to locate a faulted section of Feeder and reduce patrol times necessary to locate fault. The Company has previously presented FLISR to the Commission in its 2017 Biennial Grid Modernization Report and as part of its 2019 IDF filing.[253] The Commission did not certify FLISR in those cases but did not prohibit the Company from bringing FLISR forward during next rate case.

In Docket No. E002/M-17-775 the Commission denied Residential Time of Use Rate Pilot. The Company proposed implementing Time of Use rate in two communities of the Twin Cities metropolitan area. In the proposal the Company estimated total TOU capital costs of $8 million and $2.9 million of O&M.[254] In Docket No. E002/M-19-666 the Company included FLISR as part of their Integrated Distribution Plan (IDP) report. The Commission accepted IDP Filing and did not certify FLISR, requiring the request not to be a rider recovery and cost recovery through traditional means.[255]

The Company has a current deployment schedule of 2021-2027 and plans on deploying 208 feeders in Minnesota based on the criteria such as five-year reliability performance, planned or recently completed projects that impacts a feeder's reliability performance, and constructability.[256] The benefits of implementing FLISR include reliability performance, operational efficiencies due to increased visibility and information provided by the FLISR field devices, and reduction in field trips for employees to effect non-outage switching. Additionally, all remotely operable switches will have sensors that provide operating data to strategic points along the feeders, which will be useful in refining planning models and hosting capacity analysis.[257] Customers connected to feeders modeled in ADMS will begin to see reliability benefits in steps. The benefits will begin in 2022 and continue to increase through 2028 as

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[251] Ex. Xcel-40 at 100 (Bloch Direct).

[252] *Id* at 101.

[253] *Id.*

[254] *In the Matter of Xcel Energy's 2017 Biennial Distribution Grid Modernization*, Docket No. E002/M-17-775, XCEL ENERGY'S 2017 BIENNIAL DISTRIBUTION GRID MODERNIZATION REPORT (Nov. 1, 2017)

[255] Docket No. E002/M-19-666, ORDER ACCEPTING INTEGRATED DISTRIBUTION PLAN, MODIFYING REPORTING REQUIREMENTS, AND CERTIFYING CERTAIN GRID MODERNIZATION PROJECTS at 15 (July 23, 2020).

[256] *Id* at 102.

[257] *Id.*

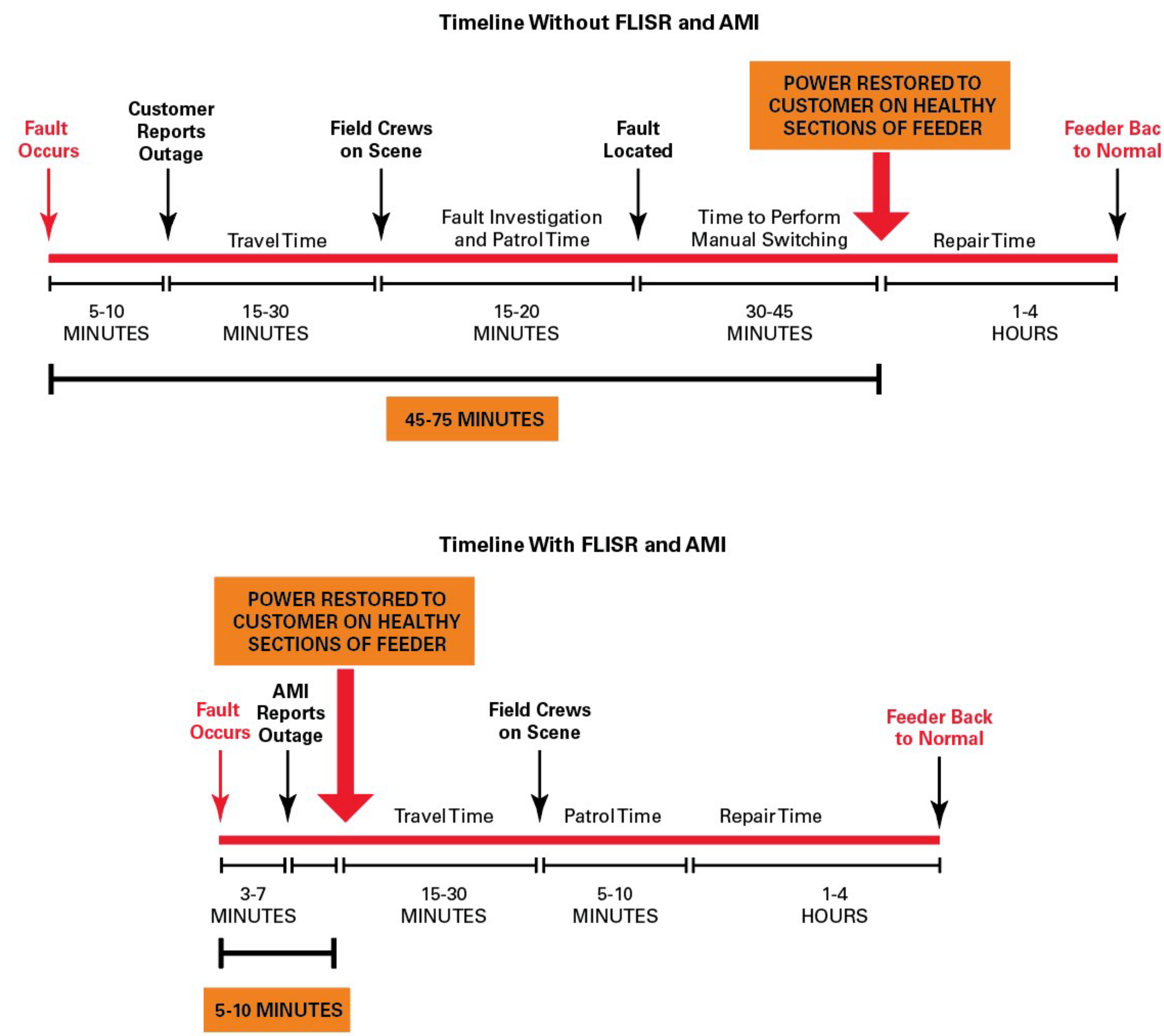
additional FLISR devices are deployed and fully automated capabilities are utilized.[258] FLISR will provide reliability benefits by allowing the Company to be more efficiently restore power to customers with the use of fewer resources, improving the customer's outage experience. Specifically, FLISR will reduce number of customers who experience sustained outages by two-thirds and will shorten duration of certain sustained outages.[259] FLISR will reduce the number of customers who experience sustained outages by allowing the protective devices to reclose or sectionalize the feeder and send data to the ADMS, which will then step through the FLISR sequence of fault location, isolation, and supply restoration. This process is expected to take from 15-45 seconds from start to finish and, by design, restore power to most of the customers on that feeder.[260] FLISR will also reduce the outage duration for customers on a feeder with a fault by providing better fault location identification, which will improve restoration times for those customers served by the feeder experiencing fault. ADMS will run the FLP algorithm and predict where within a FLISR section the fault exists, which will reduce patrol time for Xcel Energy crews. Figure 32 below illustrate improve restoration times:

[258] *Id* at 103.

[259] *Id* at 104.

[260] *Id.*

Figure 32, Restoration Timeline With and Without FLISR and AMI[261]



Xcel stated that there are no viable alternative technologies that can provide the same level of reliability benefits as FLISR.[262] The Company's cost-benefit analysis for FLISR shows that its benefits are expected to exceed costs, with an expected cost-to-benefit ratio of 2.05 to 2.28. With regards to the level of distribution capital costs the Company is seeking to recover in this rate case, the investments are reasonable and necessary to ensure the health, safety, and reliability of the distribution system, as well as to advance the distribution system to meet customers' current and future needs.[263]

The Company will be making investments in poles, cable, and substation transformers and breakers. Most investment will be core assets that form the last mile of electric service. With

261 *Id* at 106.

262 *Id* at 109.

263 *Id* at 110.

these investments being higher than historical levels, the Company sees them as necessary and reasonable in order to keep service safe and reliable.

3. Department of Commerce – Direct

The Department reviewed and agreed with the benefit-cost analysis provided by the Company. The Company first calculated the reduced customer minute out (CMO) estimated improvements that FLISR would provide. Then the Company multiplied that estimate by the value of those outage minutes using Lawrence Berkeley National Lab (LBNL) Interruption Cost Estimate (ICE) calculator.[264] FLISR's 2022-2024 capital costs are $19 million with another $1 million in O&M expense. The Department pointed out that there was no benefit-cost analysis done for any comparable technology.[265]

Table 33 shows Xcel's FLISR cost allocation:

Table 33. Estimated Cost Allocation Through Base Rate[266]

Year	Residential	SCI Non-Demand	Demand	Lighting
2022	65.8%	5.2%	27.9%	1.1%
2023	68.5%	5.1%	25.2%	1.2%
2024	70.7%	5.1%	23.2%	0.9%

The Department pointed out that, although most of FLISR's economic benefits will go to the commercial and industrial (C&I) classes, most of the recovery cost will go to the Residential class. Table 34, using United States data, shows the large cost disparity between Residential and Commercial classes for interruption events at a variety of time lengths.

Table 34. Cost of Interruption per Customer, by Class ($2013)[267]

264 Havumaki Direct at19.

265 *Id* at 21.

266 *Id.*

267 *Id* at 22.

Interruption Cost	Interruption Duration					
	Momentary	30 Minutes	1 Hour	4 Hours	8 Hours	16 Hours
Medium and Large C&I (Over 50,000 Annual kWh)						
Cost per Event	$12,952	$15,241	$17,804	$39,458	$84,083	$165,482
Cost per Average kW	$15.9	$18.7	$21.8	$48.4	$103.2	$203.0
Cost per Unserved kWh	$190.7	$37.4	$21.8	$12.1	$12.9	$12.7
Small C&I (Under 50,000 Annual kWh)						
Cost per Event	$412	$520	$647	$1,880	$4,690	$9,055
Cost per Average kW	$187.9	$237.0	$295.0	$857.1	$2,138.1	$4,128.3
Cost per Unserved kWh	$2,254.6	$474.1	$295.0	$214.3	$267.3	$258.0
Residential						
Cost per Event	$3.9	$4.5	$5.1	$9.5	$17.2	$32.4
Cost per Average kW	$2.6	$2.9	$3.3	$6.2	$11.3	$21.2
Cost per Unserved kWh	$30.9	$5.9	$3.3	$1.6	$1.4	$1.3

Using from a trade secret table, the Department noted the disparities between Residential and Commercial cost per outage event. The Department calculated a weighted average basis and concluded that residential customers represent 2.5% of total cost per outage event. The assumptions used in calculation are that residential customers experience the same frequency and duration of outages as do other customers and FLISR will provide equal outage reduction benefit to residential customers and other customers.[268] The Department argued that cost difference of an outage per hour is so extreme a large majority of benefits would most likely go to commercial and industrial customers. When taking the disparities into consideration the proposal is not cost effective for the residential class.[269] The Department recommended costs be allocated in proportion to benefits, with 97% of costs should be allotted to commercial and industrial classes and 3% of costs be allotted to residential class.[270]

The Department recommended maximizing reliability benefits per dollar spent on FLISR deployment, with prioritizing FLISR circuit install where it is cost-effective and has the greatest benefits.[271] The Department showed that benefits are not proportionally distributed across Xcel's feeders and first 20% of devices results in the greatest savings per device. The to Maximize benefits and improve overall affordability, the Department suggested initial deployment to the most cost-effective circuits. Since FLISR benefits are still hypothetical and there is risk of benefits not being realized, the Department recommended a limited deployment in order to limit the over risk. With limited deployment the Company will be able use actual data to re-evaluate cost-effectiveness of the devices.[272] Table 35 shows that, using the

[268] *Id* at 24.

[269] *Id.*

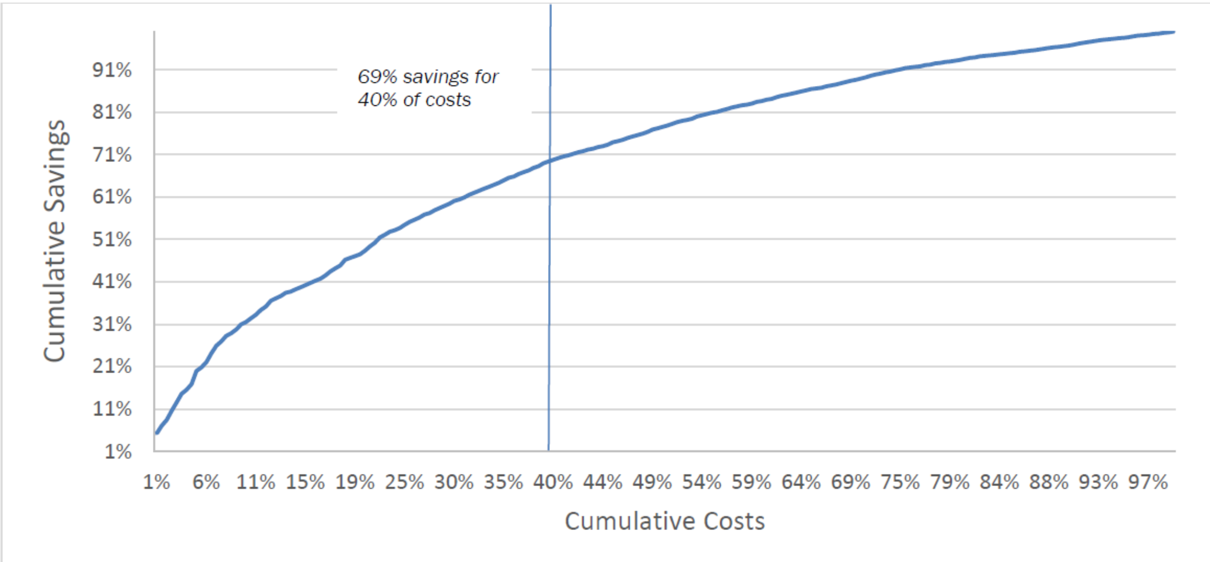
[270] *Id* at 25.

[271] *Id* at 26.

[272] *Id* at 29.

Company's BCA assumptions, the Company could achieve 69% of FLISR program benefits at just 40% of total FLISR program costs.

Table 35. Cost-Effective Deployment of FLISR[273]



The Department recommended performance metrics for FLISR deployment. The Company should track and report on reliability performance of circuits with FLISR installed and compare that with previous eight-year average reliability. The eight-year period comes from the Company's BCA model. There should be an annual report using SAIDI, SAFI, and CAIDI metrics.[274] With these metrics, parties will be able to, after trial period, evaluate whether more investment in FLISR is warranted and allow the Commission to evaluate if any ratepayer refunds are justified.

4. Clean Energy Organizations – Direct

Clean Energy recommended the Commission require the Company to adjust its FLISR Cost-Benefit analysis. Clean Energy suggested that extreme weather events like June 2013 should be excluded from the Company's Cost Benefit Analysis (CBA) because FLISR unable to address large outage events.[275] As Fresh Energy previously recommended in Docket No. 19-666, CEOs recommended the Company adjust its FLISR CBA and FLISR deployment strategy and cap FLISR expenditures at the value of demonstrated benefits.

5. Xcel Energy - Rebuttal

The Company stated that there is no justification on limiting FLISR cost recovery to the MYRP's first three years. However, the Company noted that it is asking for FLISR cost recovery for 2022-

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[273] *Id* at 30.

[274] *Id* at 31.

[275] Ex. CEO at 14 (Volkmann Direct).

2024 which is the MYRP's time period and will provide up to date FLISR-related information in future rate cases as needed.[276] The Company disagreed with the CEO request for a FLISR cost recovery cap because the request lacks specifics and also disagrees with the CBA method CEOs proposed. The Company includes extreme outage events into the CBA as such events continue to happen.

The Company disagreed with the Department's cost allocation that is on their benefit calculation, by class. Xcel argued that utility costs are properly allocated to customer classes based on cost-causation principle.[277] FLISR is a reliability program for all customer classes and CBA is useful for understanding whether to pursue programs it should not be used to allocate costs to customer classes.[278]

The Company restated its deployment plan which includes (1) reliability performance that takes into account number of customers per feeder, (2) planned or recently completed project that impact a feeder's reliability performance and (3) feeder characteristics.[279] On a yearly basis, feeders will be re-evaluated on above criteria. Cost-effectiveness is always a factor but is not the only one the Company is using for FLISR deployment. CBA quantifiable benefits are not the only benefits that FLISR provides, the data from FLISR will help in future system planning.[280] The Company did agree that focusing on feeders with a history of outages but added this should not be the only criteria. FLISR functions on groups of feeders, so there will be both higher and lower outages feeders.[281]

The Company disagreed with the CEOs recommendation to change the cost-benefit analysis model to use 10 years of data and exclude June 2013 and any other major storms. Xcel stated that all outage data should be included because the Company continues to see a trend of more major storms and FLISR is a tool that can provide reliability improvements to customers during such events.[282]

The Company disagreed with the Department on reliability metrics and proposed performance targets but stated it will continue to submit reliability reports and report on its FLISR . The Company said that it is too early in FLISR program to know which type of performance targets would be relevant.[283] The Company also disagreed that cost recovery be conditioned on meeting performance targets. If the Commission wishes for performance targets, the Company

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[276] Ex. Xcel-43 at 31 (Mensen Rebuttal).

[277] *Id* at 35.

[278] *Id* at 36.

[279] *Id.*

[280] *Id* at 38.

[281] *Id.*

[282] Id at 39.

[283] *Id* at 40.

recommended baseline data and methodologies first be assessed. At this time, the Company may not be able to attribute reliability changes to the FLISR program as there are many factors to reliability.[284]

6. Department of Commerce – Surrebuttal

The Department continued to recommend the cost allocation of FLISR based on the Company's CBA. This includes 97% of costs being allocated to commercial and industrial classes.

The Department disagreed with the Company over reporting performance by feeder before and after FLISR is implemented. Reliability performance will have factors not related to the FLISR but that should not be a barrier to report feeders' performance by circuit before and after FLISR installation.[285] The Department recommended performance targets again and disagreed that such measures would be premature. The Company has the data in their Annual Service Quality Reports that could be a baseline and using the CBA to project performance targets on reliability.

The Department recommended setting a cost cap at the level of the total cost recovery permitted in this proceeding and continued to recommend cost recovery for only the three-year period.[286]

7. Xcel – Brief

The Company recommended staying with its initial deployment strategy and disagreed with both the Department and CEOs. The Company's proposed deployment strategy is well-developed and responsive to up-to-date information which should not be modified.[287] The Company reiterated reporting requirements and performance metrics are unnecessary and premature.[288] Cost allocation should continue to follow the Company's CCOSS and be allocated to customer classes using a number of allocation factors.[289]

8. Department of Commerce – Brief

The Department recommended FLISR approval, with conditions. First the proposed spending should only be for years 2022, 2023, and 2024, second the cost of FLISR should be allocated to the demand class customers, and third the Commission should require the Company to track performance metrics.[290]

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284 *Id* at 42.

285 Havumaki Surrebuttal at 7.

286 *Id* at 9.

287 Xcel Brief at 144.

288 *Id.*

289 *Id* at 147.

290 DOC Brief at 96-98.

9. Administrative Law Judge Report

The ALJ found:

> 468. Xcel's cost-benefit analysis is reasonable. It relies on sound assumptions and methodologies, and the inclusion of 2013 data has not been shown to unreasonably inflate the benefit of FLISR investments. The number of extreme weather events has been increasing in recent years. It is appropriate to include the June 2013 major storm in the FLISR cost-benefit analysis since there is insufficient evidence to assume that FLISR would not have provided reliability improvements to customers during that event or other future major storm events.
>
> 469. The Judge recommends that the Commission find Xcel's FLISR cost-benefit analysis reasonable and not adopt the CEO's FLISR-related proposals.
>
> 479. Xcel has met its burden to establish that it would be just and reasonable to allocate FLISR cost recovery based upon the investments' functionalization as distribution assets. The Department has not shown that it would be reasonable to apply its proposed allocation.
>
> 483. The Department has established that it would be reasonable to modify Xcel's reporting requirements. Given that the reporting is largely an extension of Xcel's current obligations, it should not be unduly burdensome. The information, moreover, may help inform the Commission, stakeholders, and the Company of the efficacy of grid modernization spending going forward.
>
> 484. Based upon these findings, the Judge recommends that the Commission approve Xcel's proposed recovery of FLISR costs based upon the investments' functionalization as distribution assets, not adopt the Department's alternative cost allocation proposal, and adopt the Department's proposed FLISR reporting requirements.

10. Department of Commerce – Exceptions

The Department did not contest the ALJ's cost allocation and recommended the Commission require Xcel to allocate FLISR costs to demand class customer in its CCOSS next rate case.[291]

11. References to Record

Xcel, Bloch Direct, p.100-110
DOC, Havumaki Direct, pp. 17-32
CEO, Volkmann Direct, pp.13-15
Xcel, Halama Rebuttal, p. 28

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[291] DOC Exceptions at 50.

Xcel, Barthol Rebuttal, pp. 24- 25
Xcel, Mensen Rebuttal, pp. 29-45
DOC, Havumaki Surrebuttal, pp. 2-9
Xcel, Brief, pp.142-147
DOC, Brief, pp. 96-98
ALJ Report, pp.79-86, Findings 460-485
DOC, Exceptions to ALJ Report, pp. 50-51

12. Staff Comments

Staff notes that in past FLISR certification requests the issue of what the quantifiable benefits to FLISR are, and to whom they accrue (both in terms of customer class and the location of customers) has been a central argument. Staff notes that, due to the operational characteristics of FLISR, it can only be installed in areas of Xcel's service territory that have high enough customer density to allow the switching of customers between different feeders. In other words, FLISR will only provide direct reliability improvement to urban and suburban areas of Xcel's service territory, as demonstrated by Xcel's deployment plans that only occur in the Metro East and Metro West regions of Xcel's service territory.[292] Additional solutions to improve reliability for more rural areas of Xcel's service territory would be necessary to ensure equal reliability improvement for all customers. Staff notes that the Metro East and Metro West regions of Xcel's service territory have better reliability then the Northwest and Southeast regions. Staff emphasizes that these points should not be construed to mean that FLISR cannot provide important reliability benefits – Staff does not dispute that point. Rather, Staff points out that the benefits of FLISR are not spread evenly among Xcel's customers, particularly rural customers, and the Commission may wish to consider how it allocates FLISR costs.

Staff concurs with the Department's reporting requirements, and suggests the Commission allow Xcel the flexibility to modify the requirements in its SQSR reports to align with the Department's recommendation. Staff suggests using the IDP as the location for reporting on the FLISR budget, as well as a high-level summary of the reliability results of FLISR. Feeder specific data should continue to be reported in the SQSR reports as it already contains comprehensive reporting on feeder level reliability and a requirement for utilities to report changes in reliability associated with grid modernization. Staff notes it would be helpful in the SQSR report for Xcel to provide a list of feeders that have FLISR installed and the year in which it became fully operational.

13. Decision Options

Approval and Cost Benefit Analysis

- Find that Xcel’s FLISR cost-benefit analysis is reasonable. (Xcel, DOC, ALJ)
- Approve Xcel’s request to recover 2022-2024 FLISR program costs. (Xcel)
- Order Xcel to modify its cost-benefit analysis by excluding June 2013 data and any other extreme outage event. Order that any cost recovery for the FLISR program be capped

[292] Havumaki Direct (Trade Secret), Xcel Response to DOC IR 29.

based on the benefits from the modified cost-benefit analysis. (CEO)

Cost Allocations

- Approve Xcel's proposed FLISR Cost Allocation. (Xcel, ALJ)
- Order FLISR program costs to be allocated 97% to demand. (DOC initial recommendation)
- Order Xcel to directly allocate FLISR costs to demand class customers in its next rate case. (DOC alternative)

FLISR Deployment Strategy

- Approve Xcel's FLISR deployment strategy. (Xcel, ALJ)
- Require Xcel's FLISR deployment strategy to focus by circuit according to relative cost-effectiveness of each circuit. (DOC)
- Require Xcel's FLISR deployment strategy to focus on feeders that have experienced recent mainline feeder outage events. (CEO)

FLISR Performance Evaluation

- Order Xcel to track and report on reliability performance for circuits equipped with FLISR as recommended by the Department. (DOC, ALJ)
- Establish metrics and performance targets for FLISR and make future recoveries contingent on achievement of performance targets. (DOC)

S. Other Distribution Capital Additions – Asset Health and Reliability, Cable Replacement Program, and Grid Reinforcement Program

Staff: Ashley Marcus

1. Issue

Should the Commission approve distribution capital additions cost recovery for the categories of asset health and reliability, cable replacement program and grid reinforcement program?

2. Background

Xcel proposed 2022 – 2024 capital additions of $1,555 million and the categories of asset health and reliability (AH&R), cable replacement, and grid reinforcement program are disputed. The proposed test years total and the disputed categories are shown in Tables 36 and 37.

Table 36 - Xcel Distribution Capital Additions - MN Jurisdictional, Includes AFUDC ($M)[293]

	2022	2023	2024	Total
Asset Health and Reliability	168.9	180.8	205.0	554.7

[293] Ex. Xcel – 40 at 30 (Bloch Direct), Table 5

Advanced Grid Intelligence & Security	88.6	118.7	131.2	338.5
Electric Vehicle Programs	79.1	69.7	60.5	209.3
New Business	60.5	61.3	61.5	183.3
Capacity	33.2	41.4	53.0	127.6
Mandates	28.0	29.2	33.5	90.7
Tools and Equipment	12.6	14.1	14.3	41.0
Solar	(0.2)	(0.0)	(0.0)	(0.2)
Total	470.7	515.2	558.9	1,544.9

Table 37 – Xcel Capital Additions in Dispute – MN Jurisdictional, Includes AFUDC ($M)

	2022	2023	2024	Total
Asset Heath & Reliability (Total)	168.9	180.8	205.0	554.7
Cable Replacements (Included in AH&R)[294]	32.7	34.3	35.4	102.4
Grid Reinforcement Program (Included in Capacity)[295]	1.6	3.5	7.0	12.1

3. Asset Health and Reliability

a. Xcel Energy – Direct

Projects in this category are related to replacing or repairing poor performing assets. Projects include replacement of underground cable, wood poles, overhead lines, substation equipment including transformers and breakers that have reached the end of their lives. This category also captures replacements due to storms and public damage.[296] Xcel's proposed 2022 – 2024 capital additions for this category total $555 million.

b. Clean Energy Organizations – Direct

Clean Energy Organizations (CEO) identified AH&R expenditures as discretionary because Xcel has the flexibility to choose when, where and how to spend in this category.[297] CEOs recommended that Xcel develop a cost-benefit analysis (CBA) for its planned increase in discretionary AH&R capital additions and establish a cost cap for AH&R equivalent to the value of the demonstrated benefits.

c. Xcel Energy – Rebuttal

Xcel stated that the AH&R investments are not discretionary because it addresses assets that are aging or in poor condition. Replacements are necessary to maintain reliable service. Xcel has some flexibility of the timing of replacements, but further delays would risk increased

294 Ex. Xcel – 40 at 49 (Bloch Direct), Table 14

295 Ex. Xcel – 40 at 83 (Bloch Direct), Table 22

296 Ex. Xcel – 40 at 14 (Bloch Direct)

297 Ex. CEO – 3 at 6 (Volkmann Direct)

outages. This category includes storm damage, and those repairs and replacements cannot be delayed.

Xcel opposes a cost-benefit analysis. The utility has an obligation to provide safe and reliable service. Many investments meet this obligation but cannot be justified with a cost-benefit analysis. Some benefits, like safety, are hard to quantify. Instead, Xcel performs robust budgeting to ensure the proper investment levels. An increased budget is necessary to address assets that are close to or past its service life.

d. ALJ Report

The ALJ stated that Xcel's thorough budgeting process that includes consideration for proactive replacements and new replacements to be reasonable and a cost benefit analysis to justify these types of investments to be unpractical and unreasonable.

The ALJ found:[298]

> 498. The Judge recommends that the Commission approve Xcel's Asset Health and Reliability costs and not adopt the recommendation of the CEOs to require cost-benefit analyses for this category of costs.

e. Exceptions to the ALJ Report

The CEOs are indifferent to the ALJ recommendation on AH&R.[299]

4. Cable Replacements

a. Xcel Energy - Direct

The Minnesota Jurisdiction has over 1,600 miles of underground mainline cable and over 8,600 miles of underground tap cable. Cable failures are the main reason for outages. Xcel plans to replace cable that have already failed and proactively replace cable that have a history of poor performance to improve reliability of service. The budget for this category has increased in comparison to prior years because of the rise in reactive cable replacements in 2020, a transition to conduit construction for mainline cable replacements, funding for proactive cable replacements starting in 2022, and inflationary increases in labor and materials.[300] Cable replacements is part of the AH&R category and proposed 2022 – 2024 expenses total $102 million.

b. Just Solar Coalition – Direct

The Just Solar Coalition (JSC) noted that the budget includes replacements of entire half loops

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[298] ALJ Report at 88

[299] CEO Exceptions to the ALJ Report at 1

[300] Ex. Xcel – 40 at 49 (Bloch Direct)

of underground residential distribution (URD) cables rather than just individual sections. Xcel indicated that, once a section fails, it would benefit customers to replace the entire half loop to prevent other failures. JSC stated that Xcel did not provide data to support this claim.

JSC recommended rejection of Xcel's proposed cable replacement budget until it develops a more nuanced proposal which separates reactive cable replacements from proactive cable replacements and that better accounts for the actual cost drivers and resulting reliability benefits of proactive cable replacements.

c. Xcel Energy – Rebuttal

Xcel stated it does not budget separately for proactive and reactive cable replacement because the combined budget allows flexibility for the variability of reactive cable replacements. The primary purpose of the cable replacement budget is to fund reactive replacements. When reactive replacements are lower than forecasted, the remaining budget is used for proactive replacements. Xcel increased the budget to make more proactive replacements possible, but reactive replacements still take priority. Rather than managing this with two budgets, Xcel would like to maintain one budget.

Xcel stated that a cost-benefit analysis wound not accurately quantity the reliability benefits of proactive half loop replacements. Xcel explained the criteria for proactive replacements:[301]

> Xcel Energy currently makes half loop replacements after two failures on the same half loop in a two-year period. If the half loop meets this replacement criteria, then a replacement project for the half loop is initiated, planned, designed, and implemented. During the MYRP, Xcel Energy plans to make proactive replacements of half loops, as funding is available, to perform half loop replacements after one failure in two years or where there has been a history of failures.

Xcel stated that, since proactive replacement depends on available funding after reactive replacement have been completed, it would be difficult to identify the specific number of half loops to be replaced.

d. ALJ Report

The ALJ found Xcel's cable replacement budget and replacement criteria to be reasonable and a cost-benefit analysis would be inappropriate for this type of cost. The ALJ found:[302]

> 515. The Company has provided evidence to support the reasonableness of its plan to make proactive cable replacements in 2022–2024 as funding is available. The Company has met its burden to establish that its 2022–2024 cable replacement budgets are reasonable.

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[301] Ex. Xcel – 43 at 13 (Mensen Rebuttal)

[302] ALJ Report at 91

516. The Judge recommends that the Commission approve Xcel's proposal to recover its cable replacement program costs,

517. It is reasonable to require the Company to track and report its planned and actual spending on reactive and proactive cable replacements. Xcel's budget reflects a shift in its approach to cable replacement that, during this MYRP, will increase costs recovered from ratepayers. While Xcel has explained the basis for the increased cost, it would be appropriate for regulators and the public to have an opportunity to review the Company's use of the increased budget in detail. The information will provide transparency, and the tracking and reporting requirement would not be unduly burdensome to the Company.

518. The Judge recommends that the Commission adopt JSC's recommendation to require Xcel to track its planned and actual spending on reactive and proactive cable replacements and include the information in its next rate case filing.

e. Exceptions to the ALJ Report

The JSC disagreed with the ALJ recommendation to approve Xcel's proposal to recover its cable replacement costs. JSC noted that the proactive replacements were not adequately justified by Xcel and further explained:[303]

> As the ALJ Report notes, to the extent it has funds remaining after meeting its reactive replacement needs, Xcel plans to conduct proactive replacements after the first failure of mainline or URD cable in certain instances, rather than after two failures. As with all costs in this case, Xcel bears the burden to prove that its modified proactive replacement approach and associated spending are reasonable, but has failed to provide the necessary benefit-cost analysis to meet this standard. While the Company has claimed that there will be reliability benefits for customers, it has stated that those benefits are challenging to quantify. As JSC witness Cody Davis explained, this is not a satisfactory excuse: "Given that cable failures are a main contributor to outages for customers served by underground cables, it is reasonable to expect the Company to understand and articulate the estimated impact of its planned cable replacement spending on customer outages caused by cable failures. Absent this understanding, it is unclear how they justified a change in their half loop replacement criteria or how they determined the amount of budget increase that was intended be applied to proactive cable replacements." The ALJ Report errs in accepting Xcel's cable replacement budgets, which intermingle reactive and proactive spending, without more thorough cost-benefit analysis and justification for its proposed proactive spending.

The JSC supported the ALJ recommendation to require Xcel to track its planned and actual spending on reactive and proactive cable replacements and include the information in its next

[303] JSC Exceptions to the ALJ Report at 9 – 10

rate case filing.

5. Grid Reinforcement Program

a. Xcel Energy – Direct

The Grid Reinforcement Program is one of Xcel capacity projects. It is a new program that will start in 2022 and will be focused on ensuring that the distribution equipment and facilities are able to handle increasing load, including from EVs and other electrification.[304] The 2022 – 2024 proposed expenses total $12 million.

a. Just Solar Coalition – Direct

JSC challenged the budget for the Grid Reinforcement Program because it might not improve reliability and other budgets/processes are in place to ensure reliability. The Routine Capacity Reinforcements category supports reliability by addressing known capacity constraints such as undersized transformers or conductors and the New Business Projects extend electric service to new customers or support increased loads in response to customer requests. JSC noted that the Grid Reinforcement Program would target locations that had not yet experienced an overload but is determined by Xcel to be likely to experience one because of a future EV charger deployment. JSC suggested Xcel's Routine Capacity Reinforcements and New Business budget categories to maintain reliability because they are reactive, and the Grid Reinforcement Program is proactive and speculative.

JSC noted that the Grid Replacement Programs budget of $12M is larger than the Routine Capacity Reinforcements budget of $9.7M. With such a large investment in upgrades, routine maintenance should decrease but this is not reflected in the budget. JSC recommended:[305]

- The Commission reject the Grid Reinforcement Program as it is currently proposed.
- The Commission direct the Company to conduct a revenue offset analysis for EV-related residential service, secondary, and service transformer upgrades.
- The Commission allow the Company to waive any residential customer upfront costs related to service, secondary, and service transformer upgrades for EV load additions.

b. Office of the Attorney General – Rebuttal

The OAG supported the JSC recommendation to reject the Grid Reinforcement Program and adds that distribution system upgrades could be avoided if Xcel accommodated increased EV charging by shifting the load.

c. Xcel Energy – Rebuttal

Xcel continued to request cost recovery for the Grid Reinforcement Program. The Company

[304] Ex. Xcel – 40 at 82 (Bloch Direct)

[305] Ex. JSC – 4 at 43 (Davis Direct)

explained the benefits of the program by stating:[306]

> By proactively replacing under-sized service level transformers, the Company is better positioning the electric system for increased electrification and avoiding potential outages caused by undersized transformers. If a transformer is not adequately sized to accommodate increased loads due to EV charging or customers using more electric appliances, this could result in a transformer overload that could lead to an outage for customers. Proactive replacement of these undersized transformers eliminates these outages for customers resulting in an improved customer experience. As the Company is able to plan for proactive replacements in advance, these replacements also tend to be less costly than reactive replacements. In addition, while not the primary purpose of the Grid Reinforcement program, the replacement of these undersized, service-level transformers may also provide associated increases in the ability of the transformer to host distributed generation.

Xcel does not consider the program speculative because replacements are based on forecasted load growth and transformers at the highest risk of failure. The Routine Capacity Reinforcement projects are for reactive replacements and the New Business category is for load additions for specific customers. The Grid Reinforcement Program is for proactive replacements and does not fit into the other budgets. Xcel does not expect to see a decline in reactive replacements, therefore a decline in the Routine Capacity Reinforcement budget was not forecasted.

d. Office of the Attorney General – Surrebuttal

The OAG continued to recommend rejection of the Grid Reinforcement Program because Xcel should use load management to obviate these replacements rather than preemptively replacing functioning equipment.

6. Administrative Law Judge Report

The ALJ found:[307]

> 524. There may be some benefits to the proactive planning associated with the proposed Grid Reinforcement Program, particularly for avoiding transformer-related problems associated with EV growth and other load growth. However, Xcel has several means of avoiding such problems without spending $12.08 million on a new program.
>
> 525. Specifically, both the New Business and Routine Capacity Reinforcement Programs are designed to identify transformer upgrade needs, and customer enrollment in EV programs should also inform the Company regarding where upgrades may be necessary.
>
> 526. Further, the Program is intended to address EV load growth, but EVs are among the

[306] Ex. Xcel – 43 at 16 – 17 (Mensen Rebuttal)

[307] ALJ Report at 92 - 94

most flexible of all electric loads. The need for system upgrades to address EV load may be avoided entirely by shifting or shaping EV charging demand. The technology to do so already exists, and Xcel is piloting it in other jurisdictions.

527. Xcel argued that the size of EV charging load, however, is significantly higher than any other non-industrial load (such as microwaves and dishwashers) such that, even during off-peak hours, if a large number of EVs begin charging simultaneously, the off-peak demand can increase significantly. There also are customers who cannot, or choose not to, modify their EV charging in response to price signals.

528. However, the concern that the Company intends to address is speculative and depends on the confluence of multiple contingencies—a sufficient concentration or breadth of EV adoption during the MYRP, unavoidable synchronization of EV charging loads, and inelastic EV-charging demand—which could lead to a new peak demand on some equipment and cause system impacts during what had been off-peak periods. This alignment of events has not been shown to be more likely than not to justify the proposed $12.08 million revenue requirement increase. In addition, Xcel's budget request relies on forecasts and an analysis the reliability of which have not been established for this purpose.

529. Before committing to replace infrastructure that is not yet overloaded, Xcel can explore rate design and managed charging to encourage EV load patterns that avoid the need for new distribution investments. Proactively shaping EV load has the potential to unlock greater benefits for ratepayers than accelerating infrastructure buildout.

530. The Judge recommends that the Commission adopt OAG's and JSC's recommendation to exclude the Grid Reinforcement Program costs from Xcel's revenue requirement.

7. Exception to the ALJ Report

a. Office of the Attorney General

The OAG did not provide comments in its Exceptions for the Grid Reinforcement Program but noted this should not be interpreted as a waiver of the OAG's recommendation or arguments on that issue. The OAG continues to support all the positions advanced in its initial and reply briefs.[308]

b. Just Solar Coalition

The JSC supported the ALJ recommendation to reject Xcel's proposed Grid Reinforcement Program expense.

[308] OAG Exceptions to the ALJ Report at 1

8. References to the Record

Xcel – 41 at 2-95 (Bloch Direct)
Xcel – 80 at 14 (Halama Direct)
CEO – 3 at 4-7 (Volkmann Direct)
JSC – 4 at 32-43 (Davis Direct)
Xcel – 43 at 2-22 (Mensen Rebuttal)
OAG – 6 at 16-21 (Twite Rebuttal)
JSC – 7 at 5-21 (Davis Surrebuttal)
OAG – 10 at 6-9 (Twite Surrebuttal)
ALJ Report at 86 – 94
CEO Exceptions to the ALJ Report at 1
OAG Exceptions to the ALJ Report at 1
JSC Exception to the ALJ Report at 9 - 11

9. Staff Comments

Staff suggests the issue of whether to conduct CBA for portions of the distribution budget could be addressed in the IDP, along with broader topics around how the Commission could review policy issues related to the distribution budget in the IDP to provide guidance for utilities in rate cases.

Staff concurs with the ALJ recommendation to approve Xcel's proposal to recover its cable replacement costs. If Commission adopts JSC's reporting requirement for the Cable Replacement Program, staff also recommends having Xcel file this information as part of its IDP budget filing as that is where holistic review of distribution budgets occurs.

Staff supports the ALJ recommendation to exclude the Grid Reinforcement Program. To the extent the Commission wishes to examine policies around proactive grid upgrades for EVs or any other DER, Staff suggests examining it first in the upcoming TEP/IDPs, especially given pending legislation that addresses some of these issues. It may be helpful for the Commission and utilities to address this issue as part of the IDPs and provide guidance ahead of the next rate case.

10. Decision Options

<u>AH&R and Cable Replacements</u>

- Approve Xcel's 2022-2024 MN jurisdictional distribution capital addition costs for asset health and reliability of $168.9 million, $180.8 million, and $205.0 million, respectively. (Xcel, ALJ)
- Approve Xcel's 2022-2024 MN jurisdictional distribution capital addition costs, excluding cable replacements, for asset health and reliability of $136.2 million, $146.5 million, and $169.6 million, respectively. (JSC)
- Require Xcel to develop a cost-benefit analysis for its planned increase in discretionary AH&R capital additions and establish a cost cap for AH&R equivalent to the value of the demonstrated benefits. (CEOs)

Cable Replacement Reporting Requirements

- Require Xcel to track its planned and actual spending on reactive and proactive cable replacements and include the information in its next rate case filing. (JSC, ALJ)
- Require Xcel to track its planned and actual spending on reactive and proactive cable replacements and include the information as part of its IDP budget filing. (Staff)
  Do not require Xcel to track its planned and actual spending on reactive and proactive cable replacements. (Xcel)

Grid Reinforcement Program

- Approve Xcel's 2022-2024 MN jurisdictional distribution capital addition costs for the Grid Reinforcement Program of $1.6 million, $3.5 million, and $7.0 million, respectively. (Xcel)
- Reject Xcel's distribution capital addition costs for the grid reinforcement program for the 2022 – 2024 test years. (OAG, JSC, ALJ)
- Order Xcel to conduct a revenue offset analysis for EV-related residential service, secondary, and service transformer upgrades. (JSC)
- Order Xcel to waive any residential customer upfront costs related to service, secondary, and service transformer upgrades for EV load additions. (JSC)

T. Distributed Intelligence (DI) Capital Additions and O&M Cost

Staff: Eric Willette

1. Issues

- Should the Commission approve capital additions and O&M costs related to Distributed Intelligence (DI)?
- If the DI program is approved, what accounting method should be used across Xcel's enterprise?
- If the DI program is approved, should Xcel be required to implement the terms of the Public Service of Colorado (PSCo) settlement agreement for regarding PSCo's DI program?

2. Xcel – Direct

Distributed Intelligence refers to new meters with data processing capabilities the Company is deploying. Advanced Metering Infrastructure (AMI) meters have computing processing abilities that can communicate with the Company in real time.[309]

The Company's CBA focused on customer bill savings that will be achieved by customer changing their behavior after the customer receives suggestions and notifications via smart phone application or web-based application. Xcel estimated Net Present Value of $41 million

[309] Ex. Xcel-44 at 3 (Remington Supplemental Direct).

over the years of 2024-2028.[310]

DI capital additions are included in Xcel's Technology Service budget; whereas, O&M costs are included in Customer and Innovation and other business areas budget.[311]

As shown in Table 38, the main components of DI capital costs are (1) foundational software architecture; (2) grid-facing use case development; and (3) customer-facing use case development.[312]

Table 38. 2021-2024 Distributed Intelligence Capital Addition ($ Millions)

Cost Category	2022	2023	2024
Foundational Software Architecture	--	--	$1.6
Use Case Development – Grid Facing	--	--	$6.9
Use Case Development – Customer Facing	--	--	$15.0
Total	--	--	**$23.5**

Working through vendors, the Company is creating software to run DI effectively, reliably, and securely in its back-office system. Use Case Development budget was forecasted costs based on previous experience of labor required to develop software as well as values for one-time licensing costs. Customer-facing use case development involves creation of web and mobile application user infaces visualization software.[313]

Table 39 shows O&M costs broken down by category. The Company expects DI O&M costs to come in these categories: (1) Governance and Change Management, (2) Product Development, (3) Sales and Marketing, (4) Customer Service, (5) Third Party Consulting, (6) Architecture Run Costs, and (7) Use Run Case.[314] Governance and change management costs is labor involved in selection, prioritization, and implementation of DI. Product development costs of labor in developing new case use including data science, product management, and technical field resources. Sales and Marketing costs is labor in promoting DI solutions to customers. Customer service costs represent labor in supporting customers so they can engage in new services. Software architecture costs represent costs of maintaining and operating the architecture. Individual use cases will make up the use case run costs. HAN O&M costs include costs to develop HAN connectivity use case.[315]

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310 *Id* at 59.

311 *Id* at 47.

312 *Id* at 48.

313 *Id* at 49.

314 *Id.*

315 *Id* at 51-52.

Table 39. 2021-2024 DI O&M[316]

Cost Category	2022	2023	2024
Customer Support and Governance	--	$0.2	$0.5
System Upgrades and Maintenance	$0.1	$2.4	$1.3
Home Area Network Development	--	--	$0.2
Total	**$0.2**	**$2.6**	**$2.0**

3. Department of Commerce – Direct

The Department disagreed with the Company's CBA approach, mainly because it calculates DI benefits based on bill savings. The Department stated that the standard CBA utility practice is to value energy savings, not bill savings. The Department also disagreed with DI being cost-effective because, if Company replaced bill savings benefit with energy avoidance, the benefit from energy avoidance is considerably lower the electricity rates.[317]

The Department is concerned participation rates may be overstated. The Company has not provided enough evidence to show correlation between MyAccount usage and future DI usage. The example the Company used to show energy savings estimate only has a 2.9% participation rate and the Company is predicting 65 to 80 percent participation rate of customers signed up for MyAccount.[318]

The Department is also concerned with the lack of alternatives evaluated by the Company. The Department suggested time-of-use rates and demand response program as alternatives the Company could evaluate and compare to DI.[319]

The Department recommended the Commission reject the Company's DI proposal.[320]

4. Clean Energy Organizations – Direct

CEO recommended the Commission approve DI expenditures with the condition that the Company comply with Colorado Settlement terms to data access and HAN connectivity.[321] In Colorado Settlement, the DI capable meters will be developed in order to allow third-party services, with customer consent, to provide insights and services and create relevant products

[316] *Id* at 50.

[317] Ex. DOC-12 at 35-36 (HAVUMAKI Direct).

[318] *Id* at 37-38.

[319] *Id* at 38.

[320] *Id* at 40.

[321] Ex. CEO-3 at 18 (Volkmann Direct).

and services.[322]

5. Xcel – Rebuttal

The Company disagreed with the Department on the following:

- Requiring the Company to develop DI performance targets, as it is too early in DI program.
- That such performance targets should be linked to cost recovery.[323]
- 109hat the DI proposal fails to comply with filing requirements set forth in Commission orders to grid modernization cost recovery requests.[324] The Company has complied by providing information that satisfies such requirements. The Company restates that the Company is unaware of any feasible alternatives that would provide the same benefits as DI.[325]

The Company took issue regarding the Department's assessment that the CBA focused benefit on bill savings instead of value energy savings and noted that the Company's CIP filings use the same methodology used in the DI CBA.[326] The Company also took issue with the Department's concern regarding over-estimated participation rates because it did not base participation rate on MyAccount activity only. Xcel also factored in estimated interest in Energy Analysis which use customer engagement testing and expected disengagement.[327] The Company expects the DI enrollment to be much higher that the 2.9% DTE rate because DTE requires an annual fee, hardware to be installed, and is opt-in; while DI has no barriers and is an opt-out.[328]

The Company addresses CEOs recommendation of PSCo Settlement adoption. The DI capable meters will allow third-party services to use customer data, with consent from customer, to provide insights and services. The Company will be in control of selecting software to be installed on meters in order to maintain cybersecurity and avoid any operational issues.[329]

The Company updated its DI budget by changing the allocator used for certain DI enterprise-wide infrastructure and grid facing use case costs and revised the accounting structure for

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[322] Docket No. E002/M-21-694, *Xcel Energy Reply Comments*, March 22, 2022, Attachment A,

p. 35.

[323] Ex. Xcel-47 at 5 (Quirk Rebuttal).

[324] *Id*.

[325] *Id* at 6.

[326] *Id* at 12.

[327] *Id* at 16.

[328] *Id* at 17.

[329] *Id* at 23.

customer-facing use case costs.[330] The allocator was changed because DI costs and benefits are associated with electric service only.[331] The Company changed the customer-facing asset from common assets allocated using total meter count to an NSPM-owned asset shared allocation based on the DI licenses.[332]

6. Department of Commerce - Surrebuttal

The Department reiterated its position that the Company has not shown DI to be cost effective and pointed out that bill saving for participants does not benefit all ratepayers.[333] Updated cost-benefit analysis has a ratio of 0.98 which means DI is barely cost effective. The Department stated that the Company should not deploy DI before it is able to evaluate it cost-effectiveness in a way that impacts all customers.[334] The Department is still recommending rejecting DI.

7. Office of Attorney General - Surrebuttal

The OAG disagreed with the Company's change to the accounting structure that was presented on the Company's rebuttal testimony. The concern is that the DI program is a company-wide initiative but with the new accounting structure has full capital additions and O&M expenses for this cost category being charged to NSPM, which would result in Minnesota ratepayers paying more.[335] Table 40, shows the accounting changes.

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330 *Id* at 24.

331 *Id.*

332 *Id* at 25.

333 Ex. DOC-14 at 10 (Havumaki Surrebuttal).

334 *Id* at 12.

335 Ex. OAG-9 (Lee Surrebuttal).

Table 40. DI Cost Comparison of Supplemental Direct Testimony to Rebuttal Testimony[336]

	2022 Test Year	2023 Plan Year	2024 Plan Year
Capital Additions			
Supplemental Direct Total	$0.0	$0.0	$23.5
Rebuttal Total	$0.0	$0.0	$37.8
Difference – Rebuttal over Supplemental	$0.0	$0.0	$14.3
O&M			
Supplemental Direct Total	$0.2	$2.6	$2.0
Rebuttal Total	$0.3	$1.7	$2.0
Difference - Rebuttal over (under) Supplemental	$0.2	($0.8)	$0.1
*The Company only provided costs at the NSPM Total Company level in its Supplemental Direct testimony. Per the Company, any difference between the sum of the individual category amounts and the Total is due to rounding.			

OAG recommended the Commission reject the Company's proposal to use the shared asset accounting structure for its customer-facing asset for DI and order the Company to use the accounting structure it filed in supplemental direct testimony.[337] As a result the OAG recommended a 2022 $3.1 million rate base adjustment, a 2022 $303,000 O&M adjustment, a 2023 $12.1 million rate base adjustment, a 2023 $1.528 million O&M adjustment, a 2024 $24.6 million rate base adjustment and a 2024 $1.7 million O&M adjustment.[338]

8. Xcel Energy - Brief

The Company stated it complied with all requirements for grid modernization proposal and sees no reason for denying cost recovery based of filing compliance.[339]

The Company detailed the benefits of DI and supported the quantified benefits included in its CBA which supports the Company's investment in DI.[340]

The Company's estimated Energy Analysis participation rate is reasonable and is supported in record. The Department's concerns regarding participation rates are misleading and do not support denying cost recovery.[341]

The Company appropriately considered alternatives to DI. Both delaying and avoid the costs of

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336 *Id* at 25.

337 *Id* at 31.

338 All amounts are MN-jurisdiction.

339 Xcel Brief at 120.

340 *Id* at 123.

341 *Id* at 125.

DI but miss providing the benefits of DI.[342]

Additional metrics and performance targets for DI are not necessary or required by prior Commission Order. The Company reiterated that, there is no baseline, it is too early for performance metrics.[343]

Updated DI budget is appropriately allocated. As DI will only be available in Minnesota initially, the new customer-facing DI shared assets accounting structure is justified.[344]

9. Office of Attorney General - Brief

Because it is not satisfied with the lack of explanation for changing the accounting method, the OAG recommended rejecting the change.[345] The new accounting structure has cost sharing with other Xcel companies but there are no calculations showing how or why.[346] It is unclear why the change needs to be reflected in this rate case.

10. Department of Commerce - Brief

The Department recommended rejecting DI cost recovery proposal reasons listed below:

- Xcel's benefit-cost analysis is unreliable.
    - Xcel relies on a flawed benefits measure.
    - Xcel's analysis relies on dubious assumptions.
- Even if Xcel's benefit-cost analysis was not flawed, the analysis shows significant risk for Minnesota ratepayers.
- Xcel's Distributed Intelligence proposal is too vague and undeveloped to warrant a risky $37.8 million addition to the Company's rate base.[347]

11. Administrative Law Judge Report

The ALJ found:

> 557. The Department identified significant shortcomings with the cost-benefit analysis provided by Xcel. Because the cost-benefit analysis only narrowly found a net benefit, genuine doubts about the methodology and the reliability of its conclusions are sufficient to conclude that the analysis did not meet the Company's burden to show the costs to be

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342 *Id* at 126.

343 *Id* at 127.

344 *Id* at 128.

345 OAG Brief at 26.

346 *Id* at 28.

347 DOC brief at 98-106.

reasonable, more likely than not. Doubts about reasonableness must be resolved in favor of ratepayers.

558. The Department and the OAG have also raised legitimate concerns about the increased risk and uncertain benefits to Minnesota ratepayers implicit in the Company's revised DI accounting structure. The revision was presented at a stage in the proceeding that did not allow intervenors an opportunity to develop a full analysis and well-developed record on the proposal.

559. Accordingly, the Judge recommends that the Commission deny cost recovery for Xcel's DI proposal, without prejudice to the Company to seek recovery in a future proceeding.

560. Alternatively, if the Commission finds that the DI cost-benefit analysis meets the Company's burden of proof and authorizes DI cost recovery, the Judge recommends that the Commission adopt the OAG's alternative proposal to use the accounting structure the Company proposed in supplemental direct testimony by removing $3.1 million (MN jurisdiction) in rate base, and $303,000 (MN jurisdiction) in O&M expenses in the 2022 test year; $12.1 million (MN jurisdiction) in rate base, and $1,528,000 (MN jurisdiction) in O&M expense in the 2023 plan year; and $24.6 million (MN jurisdiction) in rate base, and $1.7 million (MN jurisdiction) in O&M expense in the 2024 plan year.

12. Xcel – Exceptions to ALJ Report

The Company took exception to both the ALJ's recommendation that the DI proposal be denied without prejudice and the ALJ's alternative recommendation.

Xcel stated it is not now requesting recovery of all future costs. It is requesting cost recovery for foundational investments that will be in service in late 2024, meaning that only a small portion of DI costs would be recovered in this case. However, this foundational work will enable Xcel to continue to develop its DI deployment plans and unlock additional benefits for customers while preserving the Commission's ability to consider additional costs and benefits in future proceedings.[348]

Xcel also noted that the ALJ's alternative, as written, effectively eliminates cost recovery in this case.[349]

13. References to Record

Xcel, Remington Supplemental Direct
DOC, Havumaki Direct, pp. 32-40
CEO, Volkmann Direct, pp.15-19

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[348] Xcel Exceptions to ALJ at 55

[349] *Id.* at 56.

Xcel, Halama Rebuttal, pp. 32-33
Xcel, Quirk Rebuttal
DOC, Havumaki Surrebuttal, pp. 9-13
OAG, Lee Surrebuttal, pp. 22-31
Xcel, Brief, pp.116-129
DOC, Brief, pp. 98-106
OAG, Brief, pp. 24-29
ALJ Report, pp.94-102, Findings 531-568
Xcel, Exceptions to ALJ Report, pp. 52-56

14. Staff Comments

Staff supports the ALJ recommendation to deny cost recovery for DI without prejudice for the same reasons listed by the Department. Staff also provides additional context around Xcel's rollout in its Colorado service territory to explain why the approval of cost recovery for DI may be premature. It is unclear whether Commission approval of DI cost recovery would also constitute approval to roll out DI customer facing programs such as the Energy Analysis use case. Staff has serious concerns about Xcel rolling out DI applications without further Commission review of policy issues embedded in the proposed DI applications. In Xcel's Colorado service territory, the Company entered a settlement (Settlement) with parties over the proposed rollout of DI, especially for its customer facing programs. That Settlement[350] prevents Xcel's CO operating company from implementing the majority of customer facing DI solutions, "due to concerns regarding fair competition with unregulated energy services, customer privacy, customer consent, and compliance with [CO PUC's] customer data rules." The Commission may wish to consider adopting relevant elements of the Colorado settlement if it approves cost recovery for DI, or require Xcel to meet conditions set out in the settlement in future applications for DI if adopts the ALJ's recommendation to deny cost recovery without prejudice. Staff also shares the OAG's concern about the new cost recovery structure introduced by Xcel in rebuttal testimony. Xcel's proposed "credit" mechanism would be dependent on the Company receiving cost recovery approval in its other jurisdictions, which Staff understands has not yet occurred. If other states did not approve DI, there could be the potential for a lack of credits back to MN ratepayers. Finally, Staff notes that denial of DI in the rate case would not have to significantly delay DI's implementation, as there would be the potential for Xcel to re-request certification on November 1 with its Integrated Distribution System Plan (IDP).

15. Decision Options

- Approve the Distributed Intelligence program including:
  - $37.8 million (NSPM total company) in 2024 capital additions
  - O&M Costs Of:
    - 2022 – $0.3 million
    - 2023 – $1.7 million
    - 2024 – $2.0 million (Xcel, CEO)

[350] Volkmann Direct, Schedule 4.

- Reject Xcel's proposal for the Distributed Intelligence program. (ALJ, DOC)
- Approve the Distributed Intelligence program with the following Minnesota Jurisdiction adjustments: (ALJ alternative)
  - Rate Base: $3.1 million for 2022, $12.1 million for 2023 and $24.6 million for 2024.
  - O&M: $303,000 for 2022, $1.528 million for 2023 and $1.7 million for 2024.

Conditions if DI is approved

- Order Xcel to account for the DI program as an enterprise-wide shared asset. (DOC, OAG)
- Accept Xcel's agreement to implement the Distributed Intelligence program consistent with the DI Settlement Agreement with Xcel's Colorado operating company as it relates to third-party data access and HAN deployment. (Xcel, CEO)

U. Production Tax Credits (PTC)

Staff: James Worlobah

1. Issues

- Should the Commission approve Xcel's proposal to include production tax credits (PTC) for in-service projects in rate base recovery?
- Should the Commission approve Xcel's proposal to use RES Rider as true-up mechanism for PTCs included in rate base?

2. Xcel Energy – Direct

Xcel noted that the MYRP's revenue requirements include a $59.5 million decrease to taxes related to increased Production Tax Credits (PTCs) associated with new and existing wind farms being moved to base rate; in this case, partially offset by an increase in income and property taxes.[351] Table 41 summarizes 2022-2024 PTCs included in the MYRP.

Table 42

Production Tax Credits included in MYRP Forecast[352]

(Amount in $000s)	2022	2023	2024
MN PTC Impact on Rev Req net of I/A	($190,169)	($192,916)	($193,385)

Due to the anticipated in-service date of additional wind facilities in 2022, the Company recommended that the projects be recovered through the Renewable Energy Standards (RES) Rider. In addition to PTCs being included in the RES Rider, Xcel recommended that the RES Rider

[351] Halama Direct, at 15, 20-23.

[352] Halama Direct, at 62.

act as a true-up mechanism for the PTCs related to projects already in service and included in base rates as a part of the 2022 test year cost of service. This approach, meets Xcel's understanding of the current regulatory treatment for PTCs.[353]

The State of Minnesota jurisdictional revenue requirement impact of PTCs in the test year, after applying the 1.40335 revenue conversion factor, is ($190.2 million), net of Interchange Agreement billings to Xcel.[354]

3. Department of Commerce – Direct

The Department noted that the renewable electricity production tax credit (PTC) is a per-kilowatt hour (kWh) federal tax credit for electricity generated using qualified resources. PTCs reduce the Company's tax expense when calculating the revenue requirement. The PTCs are available for the first 10 years of production at a qualified facility and act as a financial incentive to support development of renewable energy facilities. The Department related that Xcel proposed to include PTCs for its Five-Year Forecast in the amount of ($190,169,000) in 2022, ($192,916,000) in 2023, ($193,385,000) in 2024, ($190,341,000) in 2025, and ($183,369,000) in 2026.[355] The Department noted that these amounts are the impact on the revenue requirement net of the interchange agreement for the Minnesota Electric Jurisdiction.

The Department related that the Company expects to begin production at additional wind facilities in 2022, increasing the PTC amounts. The Department agreed with the Company's proposal, to use a true-up mechanism for PTCs in the RES Rider. The Department however recommended that the Company's PTC forecasts be updated based on recent changes in federal law occurring after the Company filed its direct testimony.

The Department disagreed with the PTC amounts that company included in the MYRP and the five-year forecast. It asserted that the PTCs were based on the Company's 2022 February forecast, which relied on the treatment of PTCs at that time under federal law, which included phase-outs of PTCs for certain windfarms. However, the Inflation Reduction Act of 2022 extended the production tax credits.[356] Consequently, the Company is no longer required to phase-out PTCs for certain windfarms, and several of the Company's wind facilities are now eligible for the full PTC (100%).

The Department related that the Company provided updated forecast for the amount for PTCs ***(Trade Secret data)***. Based on the Company's calculation for converting PTCs to a revenue requirement adjustment, the Department recommended reducing the Company's proposed revenue requirements for the Minnesota Electric Jurisdiction, net of the interchange agreement and net of rider removal.

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353 *Id*, at 62, 19-26

354 *Id*, at 63, 15-18.

355 Soderbeck Direct, at 4-5, 18-19 and 1-3.

356 Soderbeck Direct, at 6, 16-20.

4. Xcel Energy – Rebuttal

The Company asserted that it does not agree with the Department's recommended adjustment to increase the baseline PTC amount included in the MYRP. The PTCs are a cost-of-service offset; thus, the recommended PTC baseline increase results, over the MYRP, in a $28 to $42 million cost of service reduction.[357]

Xcel contended that the PTC forecasts were based on their current understanding of the Inflation Reduction Act, and that these amounts are subject to change based on additional guidance expected to be provided by the IRS. The Company argued that given their proposal that the true-up between the level of PTCs included in base rates through this MYRP and the actual amount of PTCs earned in the respective period would occur through the RES Rider, they do not believe an adjustment to the baseline PTC amount is necessary.[358] The Company also stated that the Department's calculation does not accurately account for the associated rider removals which, if accounted for, would reduce the adjustment amount.[359]

5. Department of Commerce – Surrebuttal

The Department disagreed with the Company's assertion regarding adjusted PTCs and submitted that, even if the PTCs amount is trued-up in subsequent rider filings, it is still important to include the most accurate estimate of PTCs in base rates. The Department however agreed with the Company to adjust the amount of associated rider removals in calculating the PTC revenue requirement.[360]

The Department observed that, through discovery, the Company provided updated PTC forecasts, primarily based on two factors: 1) updated MWhs produced for each wind facility and 2) updated PTCs produced at select wind facilities related to the Inflation Reduction Act.[361] Furthermore, the Company updated its wind forecast, and underlying wind patterns to reflect most recent available historical wind generation by wind farm and the Company updated the amount of production for system load forecast modeling.[362]

The Company's updated forecasts include updates for the amount of energy produced at each facility and also forecasts Inflation Reduction Act impacts. An accurate estimate ensures ratepayers are not subject to dramatic changes in rates as the amount is trued-up. The Department agreed with the Company that the RES Rider removal in its direct testimony should be updated to reflect the Company's updated PTC forecast. As summarized in Table 43, the Department recommended using the Company's 2022-2024 Minnesota PTC revenue requirement, net of rider removal and net of interchange agreement, of ($217,753,000),

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357 Halama Rebuttal, at 29, 16-22.

358 *Id*, at pages 29-30, 25-27 and 1-5.

359 *Id*, at 30, 9-11.

360 Soderbeck Surrebuttal, at 22, 3-7

361 *Id*, at 22, 11-14

362 *Id*, at 22, 15-17

($194,204,000), and ($194,738,000), respectively.[363]

Table 43: Comparison of Company-Proposed and Department-Recommended Revenue Requirement Adjustment for Production Tax Credits Rounded to nearest $1,000

Year	Company Proposed MN Elec Juris.[65]	Department Recommended MN Elec Juris.[66]	Department MN Elec Juris. Adjustment
2022	($190,169,000)	($217,753,000)	($27,584,000)
2023	($192,916,000)	($194,204,000)	($1,288,000)
2024	($193,385,000)	($194,738,000)	($1,353,000)

6. Administrative Law Judge Report

The ALJ noted the Department's explanation that setting an appropriate baseline is important because although ratepayers may receive a refund of any overpayments "significant time will have passed."[364]

The ALJ also found that the Company did not believe it was necessary to update the PTC forecast, because it was waiting for further guidance from the IRS on IRA implementation and that updating the baseline was not necessary because the updated forecast may not be more accurate than the initial forecast and because it would be trued up in the RES rider.[365]

The ALJ summarized the PTC findings as follows:

> 572. The principles identified by the Department for updating true-up baselines to reflect the best information available at the close of the evidentiary record support the reasonableness of the Department's proposal. It is more reasonable to rely upon the updated forecast than the initial forecast. The Company's arguments against updating the baseline are not sufficient to overcome the benefits to ratepayers of setting the baseline using the most up-to-date forecast available in the record.
>
> 573. The Judge recommends that the Commission adopt the Department's recommended baseline PTC update, and the corresponding adjustment to the revenue requirement, as follows:

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[363] *Id*, at 24, 10-14.

[364] ALJ Report, at 104.

[365] *Id*.

2022	2023	2024	2025	2026
$(27,584,000)	$(1,288,000)	$(1,353,000)	--	--

7. Exceptions to ALJ Report

a. Xcel Energy

Xcel maintained that the parties are in agreement that, once the baseline for Production Tax Credits (PTC) is established in base rates, any difference between the PTC baseline amount in base rates and actual PTC amounts for each year of the MYRP will be recovered through the annual Renewable Energy Standard (RES) Rider.[366] Furthermore, the Company contended that the Department's and ALJ's primary recommended adjustment to the baseline amount of PTCs to be included in base rates is applicable to the 2022 test year.

Xcel explained that the data for 2022 used in the Department's adjustment was reflected in the RES proceeding, Docket No. E-002/M-22-528, and is currently being returned to customers through a new rate. If the amounts included in base rates do not align with RES Rider filing assumptions (which would occur under the Department's proposed adjustment), then the amount in the RES Rider would require an equal offsetting adjustment to avoid under- or over-recovery. As such, Xcel argued that the ALJ's approach is unnecessarily complex, and creates the risk of confusion or error that can be avoided by not adjusting the PTC baseline amount in this case and instead allowing the true ups to actual PTC levels to occur in the applicable RES Rider filings.

The Company therefore stated that the Commission should not require adjustment to the Company's proposed 2022 PTC baseline in this case but allow the actual 2022 PTC level to be accounted for, and returned to customers, in the RES Rider.

8. References to the Record

Xcel, Benjamin Halama Direct, pp. 15, 62-63.
Xcel Benjamin Halama Rebuttal, pp. 29-30.
DOC, Holly Soderbeck Direct, pp. 4-6.
DOC, Holly Soderbeck Surrebuttal, pp. 22 and 24.
ALJ Report, p. 104

9. Staff Comments

The Department's stated principle for updating true-up baselines to reflect the best information available at the close of the evidentiary record is more persuasive than the Company's counter argument against updating the baseline. An accurate estimate ensures ratepayers are not subject to dramatic changes in rates as the amount is trued-up. As such, staff believes the ALJ recommendation for the Commission to adopt the Department's recommended baseline PTC update is more reasonable.

[366] Xcel Exception, at 47.

10. Decision Options

- Approve the Xcel's recommended baseline Production Tax Credits, as filed. (Xcel)
- Approve the Department's recommended baseline Production Tax Credits update which reduces 2022-2024 revenue requirements by $27,584,000, $1,288,000 and $1,353,000, respectively. (Department, ALJ)

V. Nuclear Carbon Free Power Project

Staff: Ashley Marcus

1. Issue

Should the Commission approve the adjustment to reflect the transfer of employees from Xcel Energy Services to Nuclear Energy Service for the Nuclear Carbon Free Power Project?

2. Xcel Energy – Rebuttal

The Nuclear Carbon Free Power Project (CFPP) is an initiative by the Utah Associated Power Systems (UAMPS) to develop and construct six 77-megawat nuclear power modules. CFPP anticipated the plant to be operation in 2030. Xcel stated this is an opportunity to be involved in the development of advanced reactors and is supporting the project by assisting with Nuclear Regulatory Commission (NRC) applications and providing numerous pre-operation services. Additionally, Xcel would be responsible for refining operating cost estimates, developing an operational and governance model, quality assurance, training, emergency planning, human resources, and security programs.[367] The Company will transfer employees to Xcel Energy Service (XES), so time spent on the project is charged to Nuclear Energy Services (NES) and then billed to UAMPS. Adjustments were required to remove the cost associated with those employees to the cost of service.[368] A summary of these adjustments are shown below in Table 44.

Table 44 - Nuclear CFRR O&M Test Year Adjustments ($K)

	2022	2023	2024
Nuclear Carbon Free Power Project	(744)	(798)	(821)

Xcel's nuclear operations witness stated 4 employees would be transferred and the revenue requirement witness stated 3 employees would be transferred.

3. Department of Commerce – Surrebuttal

The Department extended the adjustments to 2025 and 2026 as shown below.

[367] Ex. Xcel – 35 at 12 (Gardner Rebuttal)

[368] Ex. Xcel – 82 at 18 (Halama Rebuttal)

Table 45 - Nuclear CFRR O&M Test Year Adjustments - 5 years ($K)

	2022	2023	2024	2025	2026
Nuclear Carbon Free Power Project	(744)	(798)	(821)	(821)	(821)

4. Department of Commerce – Initial Brief

The Department determined the testimony from the nuclear operations witness, which stated 4 employees were transferred, to be more accurate. The Department recommended a compliance filing to break out the costs for each employee that was transferred to show how the adjustments were calculated.

5. Administrative Law Judge Report

The ALJ Found:[369]

> 577. The Judge agrees that Xcel should make a compliance filing to show how it arrived at its $774,000 Nuclear CFPP O&M adjustment, or a different amount if the adjustment was based on an inaccurate number of employees.
>
> 578. The Judge recommends that the Commission approve a revenue requirement adjustment calculated to reflect the transfer of four employees.

6. References to the Record

Xcel – 35 at 11-13 (Gardner Rebuttal)
Xcel – 82 at 18 (Halama Rebuttal)
DOC – 23 at 2-3, NAC-S-1, line 23 (Campbell Surrebuttal)
DOC Initial Brief at 93-94
ALJ Report at 105

7. Decision Options

- Reduce Xcel's 2022-2024 Nuclear Carbon Free Power Project revenue requirements by $774,000, $798,000, and $821,000, respectively. (Xcel, Department, ALJ)
- Reduce Xcel's 2025-2026 Nuclear Carbon Free Power Project revenue requirements by $821,000 for each year. (Department)
- Order a compliance filing to break out the costs for each employee that was transferred from Xcel Energy Service to Nuclear Energy Services to show how the adjustments were calculated. (Department, ALJ)

W. Load Flexibility Program Costs

Staff: Eric Willette

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369 ALJ Report at 105

1. Issue

Should Xcel recover additional costs for its load flexibility pilot through base rates?

2. Xcel Energy - Rebuttal

Xcel's initial filing did not include the costs at issue in this section, because at the time, decisions in the Load Flexibility Docket[370] had not been made. The Commission's March 15, 2022 in the Load Flexibility Docket granted deferred accounting for some, but not all, of the pilot expenses.

In its Rebuttal Testimony, Xcel proposed to add costs that had not been approved for deferred accounting.[371]

3. Office of Attorney General - Surrebuttal

The OAG has concerns with these costs, the Commission has already ruled that the costs are already in base rates, the lack of information in this proceeding limits intervenor's ability to analyze costs for 2024, and by filing in Rebuttal the intervenors have limited time to examine and make sure they are not part of base rates.[372]

4. Xcel Energy – Brief

The Company argued that the Commission did not rule on whether these additional costs were appropriate for recovery, simply that they were not approved for deferred accounting. The Company argued that there were actual increased labor costs related to the pilot that should be recovered and that, even though the costs had been added in Rebuttal Testimony, the parties had an opportunity to seek additional information about them.[373]

5. ALJ Report

The ALJ found:

> 588. Xcel introduced its evidence on the issue at its earliest opportunity after the Commission issued its decision in the Load Flexibility Docket. No party has identified any load flexibility pilot program cost that duplicates an expense already included in the Company's initial request.
>
> 589. Because the Commission has approved deferred accounting for some load flexibility pilot program costs upon a finding that the programs serve important

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[370] Docket No. E-002/M-21-101.

[371] Ex. Xcel-82 at 15 (Halama Rebuttal).

[372] Ex. OAG-9 at 32 (Lee Surrebuttal).

[373] Xcel Brief at 173.

ratepayer and policy interests, and because evidence that the costs are incremental has not been substantively rebutted, it is reasonable to include the costs in the Company's rate base in this proceeding.

590. The Judge recommends that the Commission approve rate recovery of the Company's Load Flexibility Program Costs as set forth in its rebuttal testimony.

6. References to Record

Xcel, Halama Rebuttal, p. 15
OAG, Lee Surrebuttal, pp. 31-35
Xcel, Brief, pp.173-174
ALJ Report, pp.105-107, Findings 579-590

7. Staff Comments

Staff notes that Xcel received approval for load flexibility pilots and deferred accounting approved only for incremental costs.[374]

8. Decision Options

- Approve Xcel's proposal to recover costs for the load flexibility program that were not deferred which increases 2023-2024 revenue requirements by $0.870 million and $1.136 million, respectively. (Xcel, ALJ)
- Deny Xcel's proposal to recover additional costs for the load flexibility program. (OAG)

X. Integrated Volt-Var Optimization (IVVO)

Staff: James Worlobah

1. Issue

Should the Commission approve Xcel's proposal remove the 2024 $376,000 IVVO revenue requirement?

2. Xcel Energy - Direct

Xcel asserted that Distribution's capital budget for 2023 and 2024 reflects capital additions related to IVVO ($0.2 million in 2023 and $3.7 million in 2024). The Company however stated that Distribution does not plan to in-service any portion of IVVO in 2023 and 2024. As such, the Company submitted that it would make the appropriate adjustment to remove the capital additions budgeted for IVVO in rebuttal testimony.[375]

[374] Commission's March 15, 2022, Docket No. E-002/M-21-101.

[375] Bloch Direct, at pages 98-99, 27 and 1-4.

3. Department of Commerce – Direct

The Department recommended that Xcel provide, in rebuttal testimony, the 2022-2026 revenue requirement impacts.[376]

4. Xcel Energy – Rebuttal

Xcel calculated that the IVVO removal revenue requirement impact to be $376,000.[377]

Xcel has also removed IVVO capital additions of $0.2 million for 2023 and $3.7 million for 2024.[378]

5. Department of Commerce - Surrebuttal

The Department noted that, although the Company stated that it no longer plans to pursue IVVO, Xcel's rebuttal testimonies are inconsistent on the revenue requirement calculation. The revenue requirement $376,000 adjustment seems to have used a reduction to net plant, including construction work in progress of $2,176,958.[379] However, Xcel's capital budget in the initial filing were $0.2 million in 2023 and $3.7 million in 2024. The Department further observed that Xcel provided its calculation for the revenue requirement adjustment and not for the capital additions. Given the lack of support for IVVO capital additions, the Department recommended reducing the Minnesota Electric Jurisdiction revenue requirement by at least $376,000 in 2024. Furthermore, the Department concluded that, since Xcel has provided conflicting amounts in its rebuttal testimony, the Commission may find that the adjustment should include an amount for 2023 or a different amount for 2024.[380]

6. Xcel – Evidentiary Hearings

During the evidentiary hearings, Xcel explained that because IVVO capital costs were budgeted to be placed in service during 2024, the revenue requirement adjustment reflects the average of the amounts included in service at the beginning of the year and the end of the year, which is $1.8 million and not $3.7 million.[381]

7. Administrative Law Judge Report

The ALJ noted that, because IVVO capital costs were budgeted to be placed in service during 2024, the revenue requirement adjustment reflects the average of the amounts included in

[376] Soderbeck Direct, at 52, 1-17.

[377] Halama Rebuttal, Exhibit BCH-2, Schedule 3c, p. 2.

[378] Mensen Rebuttal, at 29, 7-14.

[379] Soderbeck Surrebuttal, at pages 19-20.

[380] *Id,* at 20, 5-11.

[381] Evidentiary Hearing Transcript, Vol. 1 (Dec. 13, 2022) at 186-187 (Halama).

service at the beginning of the year versus the amount at the end of the year.[382]

The ALJ Report included the following findings and recommendation:

> 599. The Company's explanation for the $1.8 million in 2024 is sufficient to establish that its adjustment to the 2024 rate base would be more reasonable than a $3.7 million reduction. The amount is a correctly calculated adjustment to 2024 net plant in service reflecting the average net plant in service during the year.
>
> 600. The $0.2 million amount for 2023 was not specific to IVVO and so its removal is not required only as a consequence of not deploying IVVO. However, the Company's explanation for continuing to include the amount in its rate base is insufficient to meet its burden. The Company's witness stated that the amount was placed in service, and considered used and useful, in 2022. The Company provided no detail about the nature of the capital additions, except to claim that they were for "replacement service." There is no ability, on this record, for a regulator to confirm that the capital additions were used and useful in the provision of utility service.
>
> 601. The Judge recommends that the Commission adopt Xcel's proposed rate base reductions to remove IVVO together with the Department's recommendation to require that Xcel ensure that the removal includes the $0.2 million rate base addition in 2023.

8. References to the Record

Xcel, Kelly Bloch Direct, pp. 98-99,
Xcel, John Goodenough Direct, p. 61.
Xcel, Benjamin Halama Rebuttal, p. 14.
Xcel, Marty Mensen Rebuttal, p. 29.
DOC, Holly Soderbeck Direct, p. 52.
DOC, Sachin Shah Direct, p. 22.
DOC, Holly Soderbeck Surrebuttal, pp. 19-20.
Court Reporter, Evidentiary Hearing Transcript, Vol. 1, at 186-187.
ALJ Report, p. 108

9. Staff Comments

Staff concurs with the proposal to remove forecasted IVVO costs for the term of the MYRP, as the Company no longer plans to pursue IVVO. Additionally, staff believe the ALJ recommendation in the Report finding, 601, is reasonable and aligns with the merit of the discussion.

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[382] *Id*.

10. Decision Options

- Approve Xcel's proposal to include $0.2 million in IVVO investments in the 2023 test year. (Xcel)

- Order Xcel to remove $0.2 million in IVVO investments from the 2023 test year. (Department, ALJ)

- Approve Xcel's proposal to remove from rate base $1.8 million in IVVO investments from 2024 test year which results in a 2024 revenue reduction of $376,000. (Xcel, ALJ)

- Order Xcel to remove from rate base $3.7 million in IVVO investments from the 2024 test year. (Department)

Y. Insurance Premium Expenses

Staff: Christine Pham

1. Issues

- Should the Commission approve the Company's proposed 2022-2024 MN jurisdiction insurance premiums expense of $20.7 million, $22.4 million, and $25.2 million, respectively.

- Should the Commission approve the Department's recommendation to use historical averages to determine the Company's insurance premium costs?

2. Xcel Energy – Direct

In summary, the Company said through its annual policy renewal process helps the company budget the insurance premium cost appropriately and renegotiate yearly. This process was developed by consulting with insurance brokers to anticipate the general insurance markets trend for the industry, and other exposure metrics including claims history, number of employees, miles of pipes and wires, or insurable value of its assets. The Company said test year budget was based on insurance premium paid in 2020-2021 and net of distributions from mutual insurance and captive insurance providers.

Table 46 shows the Company's 2017-2026 MN jurisdiction actual and forecasted insurance premium costs (in thousands of dollars).

Table 46 - Xcel's 2017-2026 Minnesota Jurisdiction Insurance Premium Costs ($000)[383]

2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
$6,958	$6,770	$6,827	$12,754	$18,802	$20,696	$20,355	$25,243	$26,949	$29,228

The Company said those amounts were obtained from mutual insurance and captive insurance providers and do not include costs associated with workers' compensation coverage. The forecasted insurance premiums increased due to the increase of industry claim and overall hardening of the insurance market especially in the conventional property and excess liability areas. The Company explained "a hardening market means that insurance capacity is reducing, which allows for insurance companies to increase premiums pursuant to basic supply and demand principles. Conversely in a soft market, there is greater insurance capacity, and the advantage shifts to the insureds, as there is more coverage on the market for insureds to choose from, which normally reduces cost."[384]

3. Department of Commerce - Direct

The Department opposed the Company's proposed insurance premium costs and believed that the Company overestimated its premium expense for both of Xcel (NSPM) and Minnesota Electric Jurisdiction. The Department said that the Company did not provide a sufficient explanation for the variance from one year to the next for insurance premium when being asked. Therefore, the Department concluded, rather than accepting the Company's proposed amounts, that using the historical insurance risk premium expense percentage change is a reasonable method to determine the proper budget.

The Department recommended that, adjusted by a percentage representing the historical average of the Company's premium experience from 2017-2021, 2022 insurance premium costs be based on 2021 actual experience. For the years 2023-2024, the Department recommended adjustments based on applying a similar percentage increase in subsequent years.

4. Xcel Energy – Rebuttal

The Company disagreed with the Department recommendation on reducing the Company's forecasted insurance premium expenses to be based on a historical analysis of insurance 2017-2021 premium trends and inflating the 2021 premium expense number year-over-year.

The Company stated the Department's analysis and recommendation based on a recent trend is unreasonable because the past is not an indicator of the future expenses that the Company will incur. The Company argued that the Department's analysis did not cover on the overall risk management efforts and did not consider on the Company's annual procurement process. Additionally, the Company said that the insurance premium forecast must be established after thorough investigation and input from the insurance markets as well as insurance brokers. The

[383] Ex. Xcel-63 at 17 and RLM-1, Schedule 3 (Miller Direct)

[384] *Id* at 20 - line 20 through 25

industry losses are trending up, leading to escalating increases in the insurance premium forecast. The Company repeatedly mentioned its annual procurement process was developed using historical data along with an extensive analysis of the current market. This process included the updated information that Company obtained through underwriters and was the result of extensive negotiations that can span several months. The Company said with it has several internal programs and review processes in place that help mitigate costs and reduce claims, including programs that focus on safety performance and executing corporate procedures and policies that help reduce the potential for claims.[385] Therefore, the Company strongly believed it did diligent work in determining appropriate and fair insurance premium forecast amounts.

5. Department of Commerce – Surrebuttal

The Department repeated its argument that Company has not provided detail financial support for the significant premium expense increases in the test years and forward. The Department added that it twice asked for an explanation and the Company just provided general statements and did not provide the information from insurance markets and insurance brokers the Company used for forecasting its insurance premium. The Department also pointed out that the Company's 2021 forecast overstated its actual 2021 insurance premium expense for the Total Xcel Company and the Minnesota Electric Jurisdiction levels. [386]

Furthermore, the Department referred to Otter Tail Power's recent rate case (Otter Tail Rate Case) [387] in which Commission ordered the utility to utilize historical average method in several expenses.[388] Thus, the Department maintained its initial recommendation.

6. Administrative Law Judge Report

The ALJ recommended denial of the Department's recommendation and approval of the Company's proposed Insurance Premium Expense amounts.

The ALJ found:

> 611. The Department did not identify specific concerns with the Company's process of forecasting its insurance premiums. Department witness Ms. Soderbeck did not dispute during the evidentiary hearing that the Company's 2022 forecast was "quite accurate," that she had no basis to disagree with Mr. Miller's statements regarding the hardening of the insurance market, that she had no basis to disagree with Mr. Miller's statement regarding the upward trend of industry losses, that she had not undertaken investigation of her own into insurance trends, and that the Department's

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[385] Ex. Xcel 64 at 3 (Miller Rebuttal)

[386] Ex. DOC-5&6 at 31 (Soderbeck Surrebuttal)

[387] Docket No. E-017/GR-20-719.

[388] Ex. DOC - 5&6 at 32 (Soderbeck Surrebuttal)

recommendation results in a reduction of over $9 million for 2022 alone.

612. The Company has met its burden to establish the reasonableness of its proposed insurance premium expenses in the MYRP. The record in this proceeding demonstrates the accuracy and thoroughness of the Company's insurance premium expense forecasting methodology. The validity of the Company's forecasting method is supported by the small variance between the forecast and actual expenses in 2022. Company witness Mr. Miller credibly explained the reasons for the predicted upward trend in the Company's insurance premiums.

613. Although recommendations to use historical data in lieu of doubtful forecasts can be a reasonable alternative to complete disallowance in circumstances where a utility has not met its burden, that is not the case here.

614. The Judge recommends that the Commission approve the Company's proposed Insurance Premium Expense amounts and not adopt the Department's proposed adjustment.

7. Exceptions to ALJ Report

The Department disagreed with the ALJ's comments that the Department did not identify specific concerns with the Company's process of forecasting its insurance premiums and did not conduct its own investigation of insurance trends. The ALJ's findings shifted the burden of proof to the Department to identify specific items that were not reasonable, rather than adhering to the legal requirement that the utility bears the burden of proof at all times.[389] The Department emphasized that, regardless of the reasonableness of the figures input into that process, the outcome must be reasonable.

The Department continued to recommend the Commission deny the Company's proposal and not accepting the ALJ's recommendation.

8. References of Record

Xcel-63 at 15-21 (Miller Direct)
Xcel-64 at 3 (Miller Rebuttal)
Xcel-82 at 33 (Halama Rebuttal)
DOC-3&4 at 24-31 (Soderbeck Direct)
DOC-5&6 at 29-34 (Soderbeck Surrebuttal)
ALJ Report, pp. 115-117
DOC, Exceptions to ALJ report, p. 18

9. Staff Analysis

Staff notes the Company's actual premium cost for year 2021 was lower than the Company's

[389] DOC Exceptions at 18

forecasted amount. Staff agrees with the Department's argument that the Company's forecast often tends to overstate the expenses and lack of supported financial information. Therefore, using the historical average trends could be the best method to evaluate a proper budget for insurance premium expenses.

10. Decision Options

- Approve Xcel's 2022-2024 insurance premium costs of $20.7 million, $22.4 million, and $25.2 million, respectively. (Xcel, ALJ)

- Order Xcel to base 2022-2024 insurance premium costs on historical averages as proposed by the Department which results in 2022-2024 revenue requirement reductions of $9.274 million, $10.017 million, and $11.311 million, respectively. (Department)

Z. Organizational Dues

Staff: Christine Pham

1. Issue

Should the Commission approve Xcel's request for recovery of EEI, AGA, and Chamber of Commerce dues, or limit recovery as proposed by the OAG?

2. Xcel Energy – Direct

The Company stated that cost portions related to its Professional Association dues lobbying activities had been removed and reflected on Employee Expense adjustment for Test Year and Plan Years. The Company requested recovery only for non-lobbying costs portion.

The Company requested 2022-2024 recovery of the non-lobbying portion of Chambers of Commerce Dues totaling $156,285.86 per year. The Company explained Chambers of Commerce provide an essential link between the Company and the communities it serves, allowing for improved utility service.[390] Additionally, the Company also requested recovery of the non-lobbying portions of its EEI and AGA dues.

The Social Services Dues are corporate expenses which were also excluded from the 2022-2024 MYRP)

3. Office of Attorney General – Direct

The OAG had two concerns with the Company's request for recovery on Professional Association Dues: EEI and AGA.

Regarding EEI dues, the OAG said the Company has not demonstrated lobbying-related were

[390] Ex. Xcel- Volume 4 – MYRP Workpapers, VIII A4. Dues: Chamber of Commerce.

removed or that non-lobbying amounts are reasonable and necessary for electric service and provide benefits to ratepayers. Additionally, the OAG referred to the Otter Tail Power Rate Case in which the Commission disallowed the non-lobbying portions of organization dues and stated "it is unclear how the membership dues connect to the provision or improvement of utility services"[391]. The OAG said that EEI tracked and self-reported in their dues invoices a percentage that reflects the amounts they self-identify as being for "lobbying activities" under Internal Revenue Service (IRS). However, this does not mean that the Company has proved that the "non-lobbying" portion of the dues includes costs that are necessary and reasonable for the provision of utility service and, thus, appropriate for recovery from ratepayers.[392] Furthermore, the OAG provided three examples in utility regulation which pertain to lobbying-related activities performed by professional associations after the Company's previous rate case: (1) the Kentucky Public Service Commission (KPSC) disallowed of EEI organizational dues which KPSC held a utility to its burden of proof; (2) A petition for rulemaking that was recently filed with the Federal Energy Regulatory Commission (FERC) by the Center for Biological Diversity regarding the classification of industry association dues under the Uniform System of Accounts (USofA). This case is still pending. No final decision about how organizational dues should be treated for accounting purposes and rate recovery; (3) The U.S. House Energy and Commerce Committee (House Committee) began investigating the Utility Air Regulatory Group (UARG), an organization that EEI contributed funding to by invoicing its member utilities for UARG dues. Through these examples, the OAG addressed the issue with lack of transparency around professional association activities and spending generally and stated that the Commission cannot be sure that EEI's activities and spending benefits, or at least does not disadvantage, ratepayers.

Due to lack of budget information provided by the Company, the OAG recommended the Commission to disallow recovery of the EEI dues in full. The OAG also stated this recommendation is consistent with statutory requirements for dues and expenses for memberships in organizations or clubs.

For AGA dues, the OAG said the AGA represents energy companies that deliver natural gas and do not benefit electric ratepayers. The OAG recommended disallowance of 2022-2024 AGA dues.

The OAG said more than 58 of the Chambers of Commerce's (over 85%) mission is to further business and economic activity. The OAG suggested that Chambers of Commerce dues should be considered as economic development costs because its activities benefit the businesses and local communities and not just the ratepayers. The OAG recommended that the Commission limit the Company's recovery to 50% of the amount $156,286 for Chambers of Commerce dues in each year of the 2022 Test Year, 2023-2024 Plan Year.

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[391] Ex. OAG-2 at 8 (Lee Direct) - also See Docket E-017/GR-20-719

[392] *Id*

4. Xcel Energy – Rebuttal

The Company continued seeking recovery of its proposed EEI, AGA and Chambers of Commerce dues.

For EEI dues, the Company stated that membership in the EEI provides important and wide-ranging benefits related the Company's to electric operations and its customers. The Company disagreed with the OAG's argument that the Company did not provide clear proof percentage of non-lobbying activities determination and said the utilities rely on the lobbying percentage that is reported by EEI organizations that is determined using a uniform standard developed by the IRS and is the most reliable and relevant data available about the extent of the organization's lobbying activity.[393] The Company estimated its MN jurisdiction 2022-2024 EEI dues to be$1,021,000, $1,011,000 and $1,012,000, respectively.[394] The Company recommended that the OAG's arguments be rejected.

For AGA dues, The Company stated that 2020 actual AGA dues (Total Company) were $609,468.11 and that AGA's invoice states that 6.2% of these dues are attributable to lobbying.[395] The Company provided the estimates for AGA Dues in this rate case that excludes lobbying expenses. The 2022-2024 budget AGA dues is $365,000, $361,000, and $362,000, respectively.[396] The Company also emphasized AGA membership benefits for both the Company's gas and electric operations and consumers such as: forums, trainings, peer reviews, benchmarking and best practices, and other vehicles through which the Company's employees can exchange information with their peers in other companies, in order to better serve customers.

For Chambers of Commerce dues, the Company continued request 2022-2024 recovery of $156,286 annually. The Company disagreed with the OAG's recommendation to classify these costs as economic development. The Company said "Chambers of Commerce play many useful roles in their communities, and the way that they foster relationships and strengthen community ties extends far beyond purely economic benefit. Perhaps more importantly, even if economic development is one of the important purposes of these Chambers of Commerce, that does not mean that the Company's payment of dues to those Chambers should be considered as an economic development expense. Rather, by paying dues to be a member of a Chamber of Commerce, the Company is letting that Chamber's community know that the Company is part of, and a supporter of, the community. Moreover, by participating in Chambers of Commerce activities, the Company is able to interact with and hear from community residents and businesses, so that it can provide better service in response to customer needs".[397]

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393 Ex. Xcel-74 at 8 (Cash Rebuttal)

394 *Id* at 11

395 *Id* - JMC-1, Schedule 4

396 *Id* at 14

397 *Id* at 18

5. Office of Attorney General – Surrebuttal

As shown in Table 47, the OAG summarized budget information on EEI and AGA dues provided by the Company.

Table 47: Test Year/Plan Year Costs for EEI and AGA Dues (MN jurisdiction)[398]

	2022 Test Year	2023 Plan Year	2024 Plan Year
EEI	$ 1,021,000	$ 1,011,000	$ 1,012,000
AGA	$ 365,000	$ 361,000	$ 362,000
Total	$ 1,386,000	$ 1,372,000	$ 1,374,000

For EEI dues, the OAG believed that the Company has not sufficiently reviewed all the EEI's activities to ensure they benefit ratepayers and has not met burden of proof that shows the cost recovery is reasonable and necessary for the provision of utility service.

For AGA dues, the OAG said the Company did not provide sufficient evidence shows that the Company's membership in the AGA is necessary for it to provide safe and reliable service to its electric customers and continued to recommend full disallowance.

For the Chambers of Commerce, the OAG insisted that those costs be treated as economic development costs and be paid for by both ratepayers and shareholders Company. The OAG said the Company has not met the burden of proof necessary to recover the entire Chambers of Commerce dues amounts from ratepayers and provided no evidence that Chambers of Commerce activities solely benefit ratepayers. The OAG continued to recommend that the Chambers of Commerce dues costs be treated as economic development costs and recovered 50/50 from ratepayers and shareholders.

6. Administrative Law Judge Report

The ALJ recommended that EEI dues be disallowed, and that AGA and Chambers of Commerce dues be approved.

The ALJ found:

> 651. For these reasons, the Company has not established the reasonableness of recovery of the non-lobbying portion of EEI dues.
>
> 652. The Judge recommends that the Commission adopt the OAG recommendation to remove $1,021,000 (MN jurisdiction) from the 2022 test year, $1,011,000 (MN jurisdiction) from the 2023 plan year, and $1,012,000 (MN jurisdiction) from the 2024 plan year for EEI dues.

[398] Ex. OAG-9 at 10 (Lee Surrebuttal)

658. The Company has demonstrated the reasonableness of its requested AGA dues.

659. The Judge recommends that the Commission approve recovery for the requested AGA dues.

665. The Company has met its burden to show the reasonableness of its requested recovery for Chamber of Commerce dues. The Company has demonstrated that the dues provide a ratepayer benefit over and above the benefit of economic development.

666. The Judge recommends that the Commission allow the recovery of Chamber of Commerce dues and not adopt the OAG's recommended adjustment.

7. Exceptions to ALJ Report

The OAG filed exceptions to ALJ's recommendation to allow the Company to recover American Gas Association (AGA) dues. The OAG stated the AGA represents energy companies that deliver natural gas but Xcel's customers in this rate case receive electric service from Xcel, not gas services. There is no material benefit to the Company's electric ratepayers from its membership in an organization that caters to gas suppliers.

The JSC took exception to the ALJ's recommendation to approve recovery of Xcel's AGA dues. The JSC referred to its arguments applying in the case "Janus v. American Federation of State, County, and Municipal Employees, Council".[399] In Janus, the U.S. Supreme Court held that private citizens cannot be compelled to subsidize the speech of other private actors and requiring them to do so would violate the First Amendment. In that case, the Court examined an Illinois law that required a state employee to pay a portion of union dues, even if the employee chose not to join the union and strongly objected to its positions. The Court ultimately determined that those employees could not be compelled to pay for any portion of the union dues, whether or not it could be tied to political advocacy.[400] Based on Janus' case, the JSC recommended the Commission deny the Company's request for recovery of both EEI and AGA dues.

8. References of Record

Xcel-72 at 45-46 (Hussen Direct)
Xcel-80 at 75 (Halama Direct)
Xcel-82 at 35-36 (Halama Rebuttal)
Xcel-74 at 8-18 (Cash Rebuttal)

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[399] JSC Exceptions at 12 - 138 S.Ct. 2448 (2020); see JSC Reply Br. at 20-22 (making JSC's legal arguments related to Janus).

[400] *Id*

OAG-2 at 5-19 (Lee Direct)
OAG-9 at 9-19 (Lee Surrebuttal)
ALJ Report, pp. 118
OAG, Exceptions to ALJ report, p. 2-3
Just Solar Coalition (JSC), Exceptions to ALJ report, p. 12

9. Staff Analysis

On December 13, 2022, Staff issued an Information Request[401] asking Xcel to explain the work the Carbon-Free Future MN Coalition did for the Company and to provide the annual recovery amount being sought for each year of the MYRP. In its December 22, 2022 response, Xcel explained that the "Future MN Coalition is an initiative whereby Xcel Energy is attempting to educate non-traditional stakeholders about our nation-leading 100% carbon-free energy vision, our plan to achieve 85% carbon reductions by 2030 (as approved in the Integrated Resource Plan (IRP) in Docket No. E002/RP-19-368) and how they can engage in discussions of the clean energy transition process, if they so desire." Xcel's response indicated that it seeks 2022 recovery of $935,946 and $93,595 for each of 2023 and 2024 for costs related to Carbon-Free Future MN Coalition and added that the expense detail related to this cost is not presented in the rate case record.

Since Xcel acknowledged that the expense detail was not presented on the record, Staff anticipates that no party reviewed these costs. Therefore, at the hearing, the Commission may want to explore the reasonableness of these costs and determine if it wants to allow cost recovery. Staff notes that the reason this issue is included in this section is because Staff assumes that the Carbon-Free Future MN Coalition costs are included in Xcel's dues recovery request.

Staff agrees with the OAG's recommendation to the Commission deny the AGA dues recovery request. Staff views the Company's AGA membership is not necessary benefit to the electric consumer. Although the Company stated that membership benefits both the Company's gas and electric operations and consumers, AGA membership is more focus on benefit for natural gas industry.

Secondly, Staff agrees with the ALJ's recommendation the Commission allow the recovery of Chamber of Commerce dues and not adopt the OAG's recommended adjustment.

10. Decision Options

- Approve Xcel's request to recover EEI dues. (Xcel)
- Reject Xcel's request to recover EEI dues. (ALJ, OAG, JSC)
- Approve Xcel's request to recover AGA dues. (Xcel, ALJ)
- Reject Xcel's request to recover AGA dues. (OAG, JSC)

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401 https://www.edockets.state.mn.us/edockets/searchDocuments.do?method=showPoup&documentId={70673F85-0000-C416-B5D2-240A0C67B4FD}&documentTitle=202212-191603-01.

- Approve Xcel's request to recover Chambers of Commerce dues. (Xcel, ALJ)
- Allow Xcel's to recover 50% of its Chambers of Commerce dues. (OAG)
- Require Xcel to continue providing information mandated by M.S. 216B.16, subd. 17, for all dues costs it seeks to recover regardless of the type of membership (individual, corporate, or chamber) (OAG)
- Approve 2022-2024 Carbon-Free Future MN Coalition cost recovery of $935,946, $93,595 and $93,595, respectively.
- Disallow some or all 2022-2024 Carbon-Free Future MN Coalition costs and, if so, determine the disallowance amounts for each year.

AA. Advertising Costs

Staff: Christine Pham

1. Issue

Should the Commission approve the Company's request to recover advertising expenses related to safety, customer information, and non-program specific conservation message, or limit recovery to 50% as proposed by the OAG?

2. Xcel Energy – Direct

The Company said the advertising for safety, customer care, and as required by regulation should be recoverable. The Company noted its advertising expense adjustment that removed advertising dollars not recoverable from ratepayers such as advertising considered as image or branding.

Xcel requested 2022-2024 advertising expenses were $1,439,344; $1,448,794 and $1,458,339; respectively.

3. Office of Attorney General - Direct

The OAG's expressed concerns about annual 2022-2024 advertising expenses related to economic development activities totaling $317,4392. The OAG questioned the Company's request for full amount of economic development advertising costs but for other economic development costs the Company only requested 50% recovery. The OAG also said that in a recent Minnesota Power rate case[402] the Commission has approved that a 50% cost sharing between the utility's shareholders and its ratepayers. The OAG stated, "the economic development activities generally benefit shareholders as much as ratepayers" and "a 50/50 sharing represents the most equitable distribution of these costs." Moreover, the OAG recalled that Commission has recognized the economic development activities provide a direct financial benefit to utility's shareholders because "increased economic activity in the Company's service territory is likely to result in increased energy usage to fuel these activities."[403]

[402] Docket No. E-015/GR-09-1151.

[403] Ex. OAG-2 at 4 (Lee Direct)

The OAG recommended the Commission to reduce the Company's economic development advertising costs by 50 percent. This recommendation would be consistent with approved economic development costs in Xcel's previous rate case.[404]

4. Xcel Energy – Rebuttal

The Company referred to the Commission's June 14, 1982 Statement of Policy on Advertising which the Company uses to determine what advertising expenses to include for recovery based on the specific general ledger account to which the expense is booked.[405] The Company explained the advertising expenses the OAG had questioned on are not related to the economic development business function. The Company further explained FERC 912000 is defined Demonstrating and Selling Expenses, and the Company's workpaper inadvertently identified this FERC account as Economic Development. If these costs were associated with economic development, they would have been included in the Economic Development Administrative adjustment and limited to 50% recovery. The general ledger account associated with these costs are customer program-related, and most of the costs originate from renewable and choice program business areas.[406]

5. Office of Attorney General– Surrebuttal

The OAG said the Company did not provide example of the advertisement and that the Commission should not rely on only FERC account descriptions when making rate case decisions. The OAG suggested the Commission review the advertisements themselves to determine whether they are being used for economic development purposes. The OAG continued to recommend that the advertising expenses for economic development be split 50/50 between ratepayers and shareholders.

6. Administrative Law Judge Report

The ALJ recommended approval of Xcel's advertising expenses and that the OAG's recommendation be rejected.

The ALJ found:

> 672. The OAG had the opportunity to review the Company's provided examples of advertisements and did not identify any advertising samples that, in its view, are related to economic development.
>
> 675. The Judge finds credible and persuasive the testimony that the Company mislabeled FERC Account 912 in its workpaper, and that amounts attributed to FERC Account 912 are

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404 Docket No. E-002/GR-15-826.

405 Ex. Xcel-80 at 34 (Halama Rebuttal)

406 *Id* at 35

recoverable advertising expenses rather than economic development expense.

677. The Judge finds that the costs shown in the Company's Initial Filing for advertising expenses reflect a reasonable level of advertising costs to include in final rates for 2022–2024.

678. The Judge recommends that the Commission approve Xcel's proposed advertising expenses and not adopt the OAG's recommendation.

7. References of Record

Xcel-80 at 75 (Halama Direct)
Xcel-82 at 34-35 (Halama Rebuttal)
OAG-2 at 2-5(Lee Direct)
OAG-9 at 7-9(Lee Surrebuttal)
ALJ Report, pp. 127

8. Staff Analysis

Staff concurs with the ALJ's recommendation the Commission approve the Company's request include the advertising expenses related to safety, customer information, and non-program specific conservation message. Staff also finds Xcel's explanation that FERC account 912000 in its schedule was mislabeled to be persuasive.

9. Decision Options

- Approve recovery of Xcel's advertising expenses. (Xcel, ALJ)
- Disallow 50% recovery of advertising expenses included in FERC account 912.

II. RESOLVED FINANCIAL ISSUES

A. Nuclear Decommissioning Accrual

Staff: Ashley Marcus

1. Issue

What should the nuclear decommissioning accrual be?

2. Xcel Energy – Direct

Nuclear decommissioning is the cost of retiring and dismantling Xcel's three nuclear units and, until the federal government takes possession, the cost to store spent nuclear fuel. The annual accrual is an accumulation of funds to cover these costs. Xcel included an accrual of $26,946,227, MN jurisdictional level, which was the recommended accrual in the 2022 – 2024

Nuclear Plant Decommissioning Study and Assumptions, Docket No. E-002/M-20-855.[407]

3. Department of Commerce – Direct

The Department recommended an annual nuclear decommissioning accrual of $21,571,110 as approved in the August 24, 2022 Order in Docket E-002/M-20-855.[408] The accrual is based on the 60-year DECON scenario where Monticello continues to operate under a 10-year license extension.[409] This is a revenue requirement reduction of ($5,375,117) for each test year, 2022 - 2026.

4. Xcel Energy – Rebuttal

Xcel updated the nuclear decommissioning accrual to $21,571,110 to reflect the Department's recommendation and the amount approved in Docket No. E-002/M-20-855.

5. Department of Commerce – Rebuttal

The Department considers this issue resolved.

6. Administrative Law Judge Report

The ALJ Found:[410]

> 81. The parties' agreement is reasonable and the Judge recommends reducing the annual nuclear decommissioning accrual accordingly.

7. References to the Record

XCEL – 66 at 62 - 63 (Moeller Direct)
DOC – 7 at 15-16 (Skayer Direct)
XCEL – 68 at 2-7 (Moeller Rebuttal)
XCEL – 82 at 4 (Halama Rebuttal)
DOC – 8 at 2-3 (Skayer Surrebuttal)
ALJ Report at 16

8. Decision Options

- Approve Xcel's nuclear decommissioning accrual of $21,571,110, Minnesota

[407] Xcel – 66 at 62 (Moeller Direct)

[408] Note timing difference – Xcel Moeller Direct was submitted on 10/25/2021 and the nuclear decommissioning accrual was approved on 8/24/2022.

[409] *In re Northern States Power Company d/b/a Xcel Energy's 2022-2024 Nuclear Plant Decommissioning Study and Assumption,* Docket No. E002/M-20-855, Order Approving Decommissioning Study, Decommissioning Accrual, and Taking Other Action at 10 (Aug. 24, 2022)

[410] ALJ Report at 16

jurisdictional, thus reducing the revenue requirement by $5,375,117 from each test year. (Xcel, Department)

B. Nuclear Hydrogen O&M

Staff: Ashley Marcus

1. Issue

Should Xcel's request for recovery of Nuclear Hydrogen O&M expenses be approved?

2. Xcel Energy – Direct

Xcel's hydrogen project will demonstrate high temperature steam electrolysis (HTSE) which utilizes an electrolysis system to use both steam and electricity generated from nuclear energy to generate hydrogen. Xcel described the timing and funding by stating:[411]

> The O&M project is currently anticipated to begin in 2022 and be completed in 2024, pending final DOE approval to begin the project in 2022.
>
> The total grant award from the DOE for the hydrogen project is $13.8 million. Our consortium partners Arizona Public Service and INL will each receive funds from the grant to do related nuclear-to-hydrogen integration projects. The grant is an 80/20 cost share agreement where DOE will reimburse Xcel Energy 80 percent of our expenses up to an incurred amount of $11 million for the project. If Xcel expends the entire $11 million, DOE will reimburse it approximately $8.5 million. There is no DOE reimbursement for Xcel expenditures beyond $11 million.

Hydrogen is part of Xcel's vision and goal of producing 100 percent carbon-free electricity by 2050.

3. Department of Commerce – Direct

The Department requested expenses, revenues, capital costs, and estimated DOE funding for hydrogen related to nuclear for the MYRP for 2022 – 2026 for review. Xcel requested recovery of incremental expenses of $2.0 million in 2022, $2.0 million in 2023, and $2.4 million in 2024 related to exploring hydrogen production at existing nuclear power plants. After completing negotiations with the DOE, the amounts were adjusted by $0.36 million for 2022, $0.95 million for 2023, and $0.4 million for 2024.

The Department recommended using updated amounts associated with nuclear hydrogen as shown below in Table 48.

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[411] Ex. Xcel – 34 at 20 (Gardner Direct)

Table 48 - Xcel Hydrogen O&M Expense ($M)

	2022	2023	2024
Hydrogen Demonstration Project Expenses	2.00	2.00	2.40
DOE negotiation adjustment	(0.36)	(0.95)	(0.40)
Department Recommendation	**1.64**	**1.05**	**2.00**

4. Xcel Energy – Rebuttal

Xcel agreed an adjustment was necessary based on the updated funding from the Department of Energy, but the amounts vary slightly from the Department's proposal, as it compared a Total Company amount to the Minnesota jurisdictional amount net of interchange. Xcel recommended the following:[412]

- 2022: $1.099 million
- 2023: $0.509 million
- 2024: $1.345 million

5. Department of Commerce – Surrebuttal

The Department agreed with the updated amounts provided by Xcel.

6. Administrative Law Judge Report

The ALJ Found:[413]

> 86. The parties' agreement is reasonable. The Company's inclusion of the nuclear hydrogen O&M expenses, as represented in the Rebuttal Testimony of Company witness Benjamin Halama, should be approved.

7. References to the Record

XCEL– 34 at 18-22 (Gardner Direct)
DOC – 21 & 22 at 63-66 (Campbell Direct)
XCEL – 35 at 13-14 (Gardner Rebuttal)
XCEL – 82 at 17-18 (Halama Rebuttal)
DOC – 23 at 7-8 (Campbell Surrebuttal)
ALJ Report at 16 – 17

8. Decision Options

- Approve the Department's recommendation to reduce Xcel's 2022-2024 nuclear hydrogen O&M expense of $1.099 million, $0.509 million, and $1.345 million, respectively. (Xcel, Department, ALJ)

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[412] Ex. Xcel - 82 at 17-18, (BCH-2), Schedule 4 (Halama Rebuttal)

[413] ALJ Report at 17

C. Monticello Nuclear Plant Life Extension

Staff: Ashley Marcus

1. Issue

Should the depreciation life of the Monticello plant be extended by 10 years?

2. Xcel Energy – Direct

Xcel noted that the 2020 – 2034 Integrated Resource Plan (IRP) filing in Docket No. E-002/RP-19-368 included a license extension at Monticello and continued operation of Prairie Island through its current licenses.[414]

3. Department of Commerce – Direct

The Department recommend extending Monticello's depreciation life by 10 years beginning in 2023 for the following reasons:[415]

- The Commission approved the 10-year extension in Xcel's IRP.
- The Commission approved the 10-year extension in Xcel's decommissioning study.[416]
- The Commission approved a similar 10-year extension in Xcel's 2008 rate case for the Prairie Island nuclear plant.[417]
- There are material capital costs included in this rate case related to the Monticello nuclear plant.
- The 10-year life extension is the midpoint of the 20-year extension being requested from the NRC in first quarter of 2023.

The revenue requirement impact is shown in Table 49.

Table 49 - Monticello 10-yr Extension Depreciation Life Test Year Impact

	2022	2023	2024	2025	2026
Monticello 10-yr Extension	$0	($34.50)	($33.30)	($32.30)	($30.60)

4. Xcel Energy – Rebuttal

Xcel agreed with the Department's recommendation to extend Monticello's depreciation life by 10 years. The Company noted that regulatory approvals are pending, and adjustments would be

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414 Ex. XCEL– 34 at 50 (Gardner Direct)

415 Ex. DOC – 21 & 22 at 72 (Campbell Direct)

416 *In the Matter of the Petition of Northern States Power Company for Approval of the 2022-2024 Triennial Nuclear Decommissioning Study and Assumptions,* Docket No. E002/M-20-855

417 *In the Matter of the Application of Xcel for the Authority to Increase Rates for Electric Service in Minnesota,* Docket No. E002/GR-08-1065, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER at 13-14 (Oct. 23, 2009).

required if approvals are not obtained.

Xcel noted that early retirement of Sherco Unit 3 and King coal plants was ordered in the IRP as well and proposed depreciation adjustments to match the IRP order.

5. Department of Commerce – Surrebuttal

The Department noted that changing the depreciative lives of the Monticello, Sherco 3 and King plants to match the operating lives in the IRP make sense but interested parties have not had sufficient time or the opportunity to weigh in on this significant issue.

6. Administrative Law Judge Report

The ALJ Found:[418]

> 93. The Judge recommends that the depreciation life of MNGP be extended by ten years.

7. References to the Record

XCEL– 34 at 50 (Gardner Direct)
DOC – 21 & 22 at 67-72 (Campbell Direct)
XCEL – 68 at 2-7 (Moeller Rebuttal)
XCEL – 82 at 16-17 (Halama Rebuttal)
DOC – 23 at 9-11 (Campbell Surrebuttal)
ALJ Report at 17 – 18

8. Staff Comments

The Sherco 3 and King coal plant depreciation lives will be discussed in the disputed issues section.

9. Decision Options

- Order Xcel to extend the depreciation life of the Monticello nuclear plant by 10 years. (Xcel, Department, ALJ)
- Approve Xcel's 2023-2024 revenue requirement reduction of $34.5 million and $33.3 million, respectively. (Xcel, Department, ALJ)
- Approve Xcel's 2025-2026 revenue requirement reduction of $32.3 million and $30.6 million, respectively. (Department)

D. Wind Farm Life Extension

Staff: Christine Pham

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[418] ALJ Report at 18

1. Issue

Should the Commission approve the Department's recommendation to increasing Company's 11 wind farms life from 25 to 35 years?

2. Department of Commerce – Direct

The Department recommended extending the life of the Company's wind farms extend from 25 to 35 years. The Department said the Company regularly assesses its wind farms including lives of those in other jurisdictions but did not incorporate the potential extensions for remaining lives of its wind farms in this rate case. The Department also referred to the Docket No. E-017/D-20-703 (Otter Tail Power) in which the Commission approved a 35-year life expectancy for four wind farms.[419] The Department explained that, as shown in Table 50, extending wind farms' lives would require ratepayers to pay a return on the assets for a longer period, but the revenue requirement reduction is significant in the short term.

Table 50: Wind Life Revenue Requirement Reduction [420]

2022	2023	2024	2025	2026
$(20,970,463)	$(19,565,608)	$(18,185,938)	$(16,835,147)	$(15,616,559)

The Department recommended increasing the following Xcel's wind farm lives from 25 to 35 years:[421]

- Blazing Star I
- Blazing Star II
- Courtenay
- Crowned Ridge
- Dakota Ridge
- Foxtail
- Freeborn
- Lake Benton
- Northern Wind

3. Xcel Energy – Rebuttal

The Company stated its support of an extension to a 35-year life for the eligible wind farms. According to the study performed by Burns & McDonnel, it concluded no substantive performance or maintenance issues with the Company's wind facilities that would prevent

[419] Ex. DOC-21 at 12 (Skayer Direct) – Also see Docket No. E017/D-20-703, Order Approving Petition with Modifications (April 21, 2021) (eDocket No. 20214- 173194-01)

[420] Ex. DOC-21 at 14 (Skayer Direct)

[421] *Id* at 15

them from operating as designed for 35 years.[422] The Company added with the recent experience with wind repowering projects, the critical components of these wind facilities will not likely fail for 35 years. However, the Company is concerned there is a risk that these facilities could become obsolete due to wind facility technology changing before the end of their 35-year life. The Company stated it reserves the right to revisit this issue at any time to address tax or any other potential future opportunities, which may benefit our customers or provide safer and more reliable service.[423]

Additionally, the Company provided the supplemental schedule below that shows the adjustment calculation of the revenue requirement impact:

SUPPLEMENT [424]

The revenue requirement in part C above was inadvertently allocated to the Minnesota Jurisdiction using the demand allocator when it should have used the energy allocator. The corrected estimated Minnesota retail revenue requirement impact is shown below. Minnesota Jurisdiction (Net of IA) $'s

2022	2023	2024	2025	2026
(20,802,260)	(19,308,111)	(17,828,506)	(16,401,821)	(15,117,911)

4. Department of Commerce – Surrebuttal

The Department agreed with the Company rebuttal adjustment calculation above.

5. Administrative Law Judge Report

The ALJ recommended the wind projects' life extension to 35 years.

ALJ found:

> 98. The Department's recommendation to extend the life of 11 of the Company's wind facilities from 25 to 35 years is reasonable and should be adopted.

6. References of Record

Xcel-68 at 8-10 (Moeller Rebuttal)
Xcel-39 at 12-16(Capra Rebuttal)
Xcel-82 BCH-2 Schedule 5 p.2 (Hamala Rebuttal)

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422 Ex. Xcel-39 at 13 (Capra Rebuttal)

423 Ex. Xcel-68 at 9 (Moeller Rebuttal)

424 Ex. Xcel-82 BCH-2 Schedule 5 p.2 (Hamala Rebuttal)

DOC-21 at 91 (Campbell Direct)
DOC-23 at 74 (Campbell Surrebuttal)
DOC-7 at 11-13 (Skayer Direct)
ALJ Report, pp. 24-25

7. Decision Options

- Order Xcel to extend wind farms life from 25 to 35 years which results in 2022-2024 revenue requirement reductions of $20.809 million, $19.330 million, and $17.864 million, respectively. (DOC, Xcel, ALJ)

E. Pension Expense and Deferred Balance

Staff: James Worlobah

1. Issue

Should the Commission approve Xcel's request for recovery of pension expense associated with Xcel Plan using Aggregate Cost Method, and XES Plan using FAS 87 along with amortization of the XES Plan deferred balance over three years?

2. Xcel Energy – Direct

a. Qualified Pension Expense

The Company reported that the 2022-2024 level of qualified expense is $14.8 million, $12.1 million, and $8.4 million, respectively.[425]These amounts include costs related to both the Xcel Plan, approximately 75%, and the XES Plan, approximately 25%. The Xcel plan and the XES Plan determined their qualified pension expense using different methods.

The Xcel plan uses the ACM to determine the expense. As such, the pension expense for the plan consists of a levelized percentage of payroll that is sufficient to recover the current year's portion of the difference between the present value of future benefits (PVFB) and the asset value. In contrast, the XES Plan costs are established based on the five elements prescribed by FAS 87 – service cost, interest cost, the EROA, unrecognized gains or losses, and unrecognized prior service costs.[426]

The two methods are based on a common assumption: To calculate the pension liability it is necessary to make assumptions about the discount rate and demographics (including attrition, expected wage increases, etc.). The assumptions are established at each year's end and they are used to determine book expense for the subsequent year. The Company stated that the final 2022 assumptions will be available in late January 2023. In Table 51, Xcel provided its qualified pension expense for the four years prior to the 2022 test year and what the Company expects them to be through 2024.

[425] Schrubbe Direct, at 42, 4-8.

[426] *Id*, at 42, 12-19.

Table 51 Qualified Pension Expense	
NSPM Electric O&M State of MN	
Year	**Amount ($)**
2018	20,549,083
2019	21,427,184
2020	19,782,032
2021 Forecast	19,488,214
2022 Test Year	14,791,342
2023 Plan Year	12,149,016
2024 Plan Year	8,402,815

The 2021 forecast and beyond is based on no assumptions changes for the EROA, discount rate, plan contributions, wage increases, and employee turnover. The forecast also assumes that actual experience matches these assumptions, including the Company's actual return on assets equaling the EROA in 2021 and all subsequent years.[427] Additionally, where applicable, the amounts reflect the impacts of pension expense being calculated using a five-year average discount rate and applying the two additional mitigation methods that the Commission accepted in Docket No. E-002/GR-12-961. The Company revealed that the major drivers for the decrease/changes in qualified pension expense are:

- Favorable asset returns in 2019 and 2020.
- A decrease in the asset loss amortization.
- A reduction in the interest cost arising from lower discount rates.
- Improved funded status from contributions and expected return on assets.
- Plan design changes.

The Company stated that the primary reason for the asset loss amortization decrease was that the XEPP earned a 20.91% and 17.49% return in 2019 and 2020, respectively. The Company stated that contributions and the expected return on assets contribute to the decrease in pension expense in that, because of funding requirements mandated by the Pension Protection Act of 2006, the Company has made significant contributions to the pension trust funds in recent years. Those contributions increase the assets upon which the pension plan earns a return and those returns are an offset to annual pension cost. Thus, the increase in the asset base helps to reduce annual pension cost.[428] Additionally, pension plan design changes in 2011 and 2012 significantly reduced benefit levels for newly hired bargaining and non-bargaining employees, which contributed to the decrease in pension expense.

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[427] *Id*, at 43, 12-17.

[428] Schrubbe Direct, at 45, 3-7.

b. 401(k) Match

The Company also noted that the 2022-2024 401(k) match expense is $9.1 million, $9.4 million, and $9.6 million, respectively. As shown in Table 52, Xcel provided 401(k) match expenses for the four years prior to the 2022 test year and forecasted amounts for the multi-year plan.

Table 52

401(k) Match Expense

NSPM Electric O&M State of MN	
Year	**Amount ($)**
2018	9,036,008
2019	9,131,013
2020	9,284,970
2021 Forecast	9,007,773
2022 Test Year	9,130,477
2023 Plan Year	9,353,005
2024 Plan Year	9,625,556

The assumption used to develop the 2022-2024 401(k) match expense was the most recent actual 401(k) match, which was from the 2020 plan year. This base year amount was then increased by the 2021 estimated and 2022-2024 budgeted merit increases to derive the amounts in 2022-2024. The 401(k) expense is increasing each year because the contribution is calculated based on a percentage of salary and merit salary increases cause the total labor costs to increase each year.[429]

c. Qualified Pension Deferred Balances

Xcel reported that, in Docket No. E-002/GR-12-961, the Company introduced, and the Commission approved, two alternative cost recovery methods for its qualified pension costs – a twenty-year amortization period for unrecognized pension costs for the Xcel Plan and a "cap and defer" recovery of XES pension costs. Subsequently, in Docket No. E-002/GR-13-868, approval of that methodology was extended and the Company is proposing to continue them in this case. The impact from these two changes reduced the test year qualified pension expense by $563,036.[430]

Xcel asserted that the deferred amounts represent shareholder funds that the Company will not recover until a future time period, or a prepayment. The general ratemaking practice is for a utility prepayment to be added to rate base and for a customer prepayment to be subtracted

429 Schrubbe Direct, at 47, 3-11.

430 *Id*, at 48, 15-16.

from rate base.[431] However, the Company however that in Docket No. E-002/GR-13-868, the Commission stated that the deferred amounts "will not be included in rate base." Consistent with that Order, the Company has not earned a return on these deferrals. Xcel proposed to include the deferred amount related to extending the amortization period from 10 to 20 years in rate base and to earn a return on those amounts on a going-forward basis.

Additionally, Xcel proposed to amortize the December 31, 2020 XES Plan cap cumulative deferred balance of $15,905,207 over the three years of the multi-year plan, or $5,301,736 annually (the history of the cumulative deferred balance can be found in Exhibit___(RRS-1), 8 Schedule 11, on the Sch B-XES, Page 2).[432]
Consistent with Order Point 7 in Docket No. E-002/GR-13-868, the pension discount rate expense reflects Xcel's recalculation of its MYRP Forecast pension costs using the five-year average discount rate.[433] Additionally, the Company related that the pension deferral adjustment reflects the Company's deferred pension difference related to extending the amortization period for unrecognized pension costs for the Xcel Plan from 10 to 20 years, and a "Cap and defer" recovery of XES pension costs as approved in Docket No. E-002/GR-13-868.[434]

3. Department of Commerce – Direct

The Department stated it does not have any concerns with the Company's proposed pension expense in this proceeding.[435]

4. Department of Commerce – Surrebuttal

In surrebuttal testimony, the Department asserted that it considers this issue resolved.[436]

5. Administrative Law Judge Report

The ALJ noted that the Department asked the Company to explain where the Commission approved the continuing use of the ACM for the NSPM Plan, and the Company provided a response to the Department's Information Request showing the Commission's approval of an agreement between the Company and OAG in Docket No. G-002/GR-09-1153. The Department did not object to the Company's Pension Expense and Deferred Balance Proposals.[437]

The ALJ concluded that:

> 103. The Judge recommends approval of the Company's pension expense and

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431 *Id*, at 48, 19-22.

432 *Id*, at 50, 3-12.

433 Halama Direct, at 85, 3-7.

434 *Id*, at 85, 18-22.

435 Campbell Direct, at 38.

436 Soderbeck Surrebuttal, at 4, 11.

437 *Id*.

the Company's proposal to amortize the cumulated deferred balance of the XES Plan over the MYRP term.

6. References to the Record

Xcel, Richard Schrubbe Direct, pp. 42-43, 45, 47-48, 50.
Xcel, Benjamin Halama Direct, pp. 84-85.
DOC, Nancy A. Campbell Direct, p. 38.
DOC, Holly Soderbeck Surrebuttal, p. 4.
ALJ Report, p. 49.

7. Staff Comments

Staff concurs with the parties that the matter is resolved.

8. Decision Options

- Approve Xcel's request for recovery of pension expense associated with Xcel Plan using Aggregate Cost Method, and XES Plan using FAS 87 along with amortization of the XES Plan deferred balance over three years. (Xcel, Department, ALJ)

F. Transformer Sales

Staff: Christine Pham

1. Issue

To reflect three transformer sales in 2022, should the Commission approve the Company's proposed revenue requirements adjustments?

2. Xcel Energy – Rebuttal

In 2022, the Company sold three different used transformers: Forbes, Nobles, and Grand Meadow. The Company made adjustment related to these transformer sales in the MYRP shown on Exhibit __(BCH-2), Schedules 3a-c, page 4, row 84, column 21 22 under Hamala rebuttal testimony.

3. Department of Commerce – Surrebuttal

The Department agreed with the Company's adjustment for net reductions to the revenue requirements associated with the sale of the three transformers:

- 2022 – ($0.612 million)
- 2023 – ($0.210 million)
- 2024 – ($0.169 million)

4. Administrative Law Judge Report

The ALJ recommended the revenue requirement adjustments related to the three transformer sales be approved.

The ALJ found:

> 104. In 2022, the Company sold three different transformers used at its Forbes, Nobles, and Grand Meadow wind farms.100 Each of these sales was approved by the Commission in three different dockets. The Company adjusted its MYRP Forecast revenue requirements to reflect these transformer sales by removing the transformer costs and adding sales revenue.
>
> 105. The Department agreed with the Company's proposed adjustments to reflect these three transformer sales in 2022. The Company's proposed adjustments should be adopted.

5. Reference of Record

Xcel-82 at 13,22 (Halama Rebuttal)
Xcel-39 at 23 (Capra Rebuttal)
DOC-23 at 11-12 (Campbell Surrebuttal)
ALJ Report, pp. 26

6. Decision Options

- Approve Xcel's adjustments related to the three transformer sales in 2022 which results in 2022-2024 revenue requirement reductions of $0.612 million, $0.210 million, and $0.169 million, respectively. (Xcel, DOC, ALJ)

G. North Dakota Investment Tax Credit

Staff: Ashley Marcus

1. Issue

Should the Minnesota portion of the North Dakota Investment Tax Credit be included in the revenue requirement calculation?

2. Xcel Energy – Direct

The North Dakota Investment Tax Credit (NDITC) is an income tax credit for qualified North Dakota investments. Xcel is required to allocate the Minnesota portion of this credit to ratepayers for the Courtenay Wind Project. Xcel stated it would include the NDITC in the calculation of revenue requirements in the Renewable Energy Standards (RES) rider.

3. Department of Commerce – Direct

Xcel did not include the Minnesota portion of the NDITC in the MYRP, so the Department recommended including the credit in the 2022-2026 revenue requirement calculation.[438]

4. Xcel Energy – Rebuttal

Xcel agreed to include the MN portion of the NDITC in the MYRP.

5. Department of Commerce – Surrebuttal

The Department considers the issue resolved.

6. Administrative Law Judge Report

The ALJ found:[439]

> 108. The Judge has reviewed the agreement of the parties and finds it reasonable and consistent with the public interest.

7. References to the Record

XCEL – 80, at 56, 138-139 (Halama Direct)
DOC – 3 & 4 at 8-10 (Soderbeck Direct)
XCEL – 82 at 13 (Halama Rebuttal)
DOC – 5 at 2-3 (Soderbeck Surrebuttal)
ALJ Report at 20

8. Decision Options

- Order Xcel Energy to include the Minnesota portion of the North Dakota Investment Tax Credit in the revenue requirement calculations which results in 2022-2024 revenue requirement reductions of $0.347 million, $0.496 million, and $0.712 million, respectively. (Xcel, Department, ALJ)

H. EV Deferral Update

Staff: Eric Willette

1. Issue

Should the Commission approve Xcel's proposed recovery of EV deferred costs, updated as of December 31,2021, to be amortized over 3 years?

438 Ex. DOC – 4 at 10 (Soderbeck Direct Errata) – Specific amounts were identified as Trade Secret.

439 ALJ Report at 20

2. Xcel- Direct

The Company is requested recovery the deferred costs for prior years in current rate case.[440]

3. Xcel-Rebuttal

The Company proposed EV rebate costs were associated with proposed program incentivize customers to buy EVs and Company intends to seek approval in MYRP.[441]

4. Department of Commerce-Surrebuttal

The Department agreed with Xcel's proposed amounts.

5. Administrative Law Judge Report

The ALJ found:

> 110. The amount of these costs was not ascertainable at the time of the initial filing. In rebuttal, the Company proposed that the costs would increase its Minnesota Electric Jurisdiction revenue requirement by $305,000 for 2022, $287,000 for 2023, and $270,000 for 2024.The Department agreed with these amounts.
>
> 111. Because the parties' agreement is reasonable, the Judge recommends that the Commission approve recovery of these deferred costs in this rate case.

6. References to Record

Xcel, Bloch Direct, pp.149-173
Xcel, Halama Rebuttal, pp. 8-9
DOC, Soderbeck Surrebuttal, pp. 4-6
ALJ Report, pp.20, Findings 109-111

7. Decision Options

- Approve recovery of EV deferred costs, updated as of December 31, 2021, over a 3-year amortization period which results in 2022-2024 revenue requirement increases of $0.305 million, $0.287 million, and $0.270 million, respectively. (Xcel, DOC, ALJ)

I. EV Rebates

Staff: Eric Willette

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440 Ex. Xcel-40 at 149 (Bloch Direct).

441 Ex. Xcel-82 at 8 (Halama Rebuttal).

1. Issue

Should EV Rebates costs be removed from the MYRP?

2. Xcel – Direct

Xcel's initial filing the recovery of the following EV rebates:

2022 - $6,238,000
2023 - $16,124,000
2024 - $21,577,000

3. Xcel Energy - Rebuttal

The Commission's April 27, 2022 in Docket No. E-002/M-20-745 denied Xcel's proposed rebate program. As a result, in rebuttal, the Company adjusted revenue requirements to reflect Commission's Order and removed all costs related to EV Rebates.[442]

4. Department of Commerce - Surrebuttal

Department agreed with Company's proposed adjustments.

5. Administrative Law Judge Report

The ALJ found:

> 114. The Company estimated that the denial of the EV rebates program resulted in revenue requirements reductions of $6,238,000 for 2022, $16,124,000 for 2023, and $21,577,000 for 2024.114 The Department agreed with these figures and considered this issue resolved.
>
> 115. The Judge recommends that the Commission approve the EV rebates adjustments.

6. References to Record

Xcel, Bloch Direct, pp.149-173
Xcel, Halama Rebuttal, pp. 8-9
DOC, Soderbeck Surrebuttal, pp.6-9
ALJ Report, pp.21, Findings 112-115

7. Decision Options

- Approve the removal proposed EV costs totaling:
  2022 - $6,238,000

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[442] Ex. Xcel-82 at 8 (Halama Rebuttal).

2023 - $16,124,000
2024 - $21,577,000

J. EV Programs

Staff: Eric Willette

1. Issue

- Should EV program costs be removed?

2. Xcel – Direct

Xcel's initial filing included certain EV Program costs.

3. Xcel – Rebuttal

The Commission's October 26, 2022 in Docket No. E-002/M-22-432 required Xcel to remove EV Program costs from the rate case. As a result, in rebuttal, the Company adjusted revenue requirements to reflect Commission's Order and removed the following EV Program costs:

2022 - $6,238,000
2023 - $16,124,000
2024 - $21,577,000

4. Department of Commerce - Surrebuttal

Department agreed with Company's proposed adjustments.

5. Administrative Law Judge Report

The ALJ found:

> 116. In addition, the Commission later considered the Company's proposal to include certain EV program costs in this rate case. The Commission referred the matter to the OAH, and required the Company to remove costs associated with the EV programs from this rate case.
>
> 117. The Company reduced its requested revenue requirement consistent with the Commission's Order, in the amounts of $1,067,000 for 2022, $2,528,000 for 2023, and $6,517,000 for 2024. The Department confirmed these figures and considered this issue resolved.

6. References to Record

Xcel, Halama Rebuttal, pp. 8-9
DOC, Soderbeck Surrebuttal, pp. 9-11
ALJ Report, pp.21, Findings 116-117

7. Decision Options

- Order Xcel to remove EV program costs from this rate case which results in 2022-2024 revenue requirement reductions of $1.067 million, $2.528 million, and $6.517 million, respectively. (Xcel, Department, ALJ)

K. Legacy Meter Regulatory Asset

Staff: Christine Pham

1. Issue

Should the Company's remaining book value of legacy meters at time of completing AMI meter deployment be transferred to a regulatory asset and deferred for recovery as part of next rate case?

2. Xcel Energy – Direct

The Company said that, as part of the larger advanced grid initiative, it is in the process of rolling out AMI (Advanced Metering Infrastructure) meters. This deployment process would lead to the early retirement of legacy meters with an estimated unrecovered net book value of $28 million at the end of 2024. The Company proposed to transfer the remaining book value at the time AMI meter deployment is complete to a regulatory asset and deferred recovery until its next rate case.

3. Department of Commerce – Direct

To assess the reasonableness of Xcel's proposed regulatory asset treatment, the Department asked the Company to respond to the following questions regarding treatment of its legacy meters:[443]

- Specific reason Xcel is unable to continue to manage both vintages in separate sub-accounts.
- What data will Xcel provide to the Commission to prove only unrecovered incremental costs are being reflected in the new account(s) to avoid double recovery of costs since these meters are currently included in rate base in this rate case?
- How will the regulatory account benefit ratepayers?

4. Xcel Energy – Rebuttal

The Company responded to the Department's questions:

- Two FERC sub-accounts already set up to separate the meters: allows the new AMI meters to be capitalized and depreciated separate from the legacy meters. However, to comply with accounting standards, it's required the legacy meters be depreciated

[443] Ex. DOC-7 at 19 (Skayer Direct)

into the asset class (approximate 2 years).

- The Company can provide documentation of the amortization recorded in future rate cases. If a stated amortization rate or combined depreciation and amortization expense was stated by regulatory order, the Company will not have the ability to modify the amortization rate.
- This regulatory asset and tracker will benefit customers by providing a predictable, stable cost and recovery path.

The Company also proposed an amortization period of 14 years for these meters.

5. Department of Commerce – Surrebuttal

The Department recommended the Commission approve the Company to create the legacy-meters regulatory asset to stabilize the amortization expense for ratepayers and will not shorten the legacy-meters' current remaining life. In addition, the Department said the Commission has allowed Dakota Electric to recover an undepreciated balance for meters in 2018.[444]

6. Administrative Law Judge Report

The ALJ recommended that Xcel's proposal be approved.

ALJ found:

> 120. The Department agreed with the Company's proposal and recommended that the Commission approve creating the legacy meters regulatory asset. Department witness Ms. Skayer agreed with Mr. Moeller that the regulatory asset will stabilize the amortization expense for ratepayers and will not shorten the legacy meters' current remaining life. Ms. Skayer also pointed to the Commission's decision to allow Dakota Electric to recover an undepreciated balance for meters in 2018.
>
> 122. The parties' agreement is reasonable, and the Judge recommends approving the Company's proposal to create a regulatory asset for legacy meters.

7. References of Record

Xcel-66 at 60 (Moeller Direct)
Xcel-68 at 17-20 (Moeller Rebuttal)
DOC-7 at 17-20 (Skayer Direct)
DOC-8 at 8-11 (Surrebuttal)
ALJ Report, pp. 28

[444] Ex. DOC-7 at 11(Skayer Surrebuttal) – also See Dakota Electric's Petition to Implement tracker Recovery for Advanced Grid Infrastructure Investments, Docket No. E-111/M-17-821

8. Decision Options

- Approve Xcel's request to transfer any remaining book value of legacy meters at time of complete AMI meter deployment to a regulatory asset and deferred for recovery to its next rate case. (Xcel, DOC, ALJ)

L. Transmission Cost Recovery (TCR) Rider Removal

Staff: James Worlobah

1. Issue

Should the Commission approve Xcel's proposal to update the revenue requirement impact of removing certain items from rate case due to recovery through the TCR Rider?

2. Xcel Energy – Direct

Xcel proposed continued use of the TCR Rider during the MYRP for the projects that will not be placed in service as of December 31, 2021 and MISO RECB Schedule 26 and 26A revenues net of expenses. The TCR Rider adjustment removes all costs and revenues (other than (i) internal labor for all projects and (ii) all ADMS O&M, except software maintenance) from the MYRP Forecast jurisdictional cost of service for the Advanced Distribution Management System (ADMS), Advanced Metering Infrastructure (AMI), Field Area Network (FAN), Time of Use (TOU) Pilot, and LoadSeer projects, as well as MISO RECB Schedule and 26A net revenues, all of which are approved for inclusion in the TCR.[445] Furthermore, Xcel stated that it is seeking approval to include their Distributed Intelligence and Sherco-Lyons County projects in the TCR. Addition, the Company proposed to include these project costs and revenues in the TCR Rider and to continue cost recovery for these projects in the rider after the implementation of final rates in this case.[446]

Xcel pointed out that the adjustment decreases the 2022-2024 MYRP forecasted rate base by $98.807 million, $193.117 million, and $283.589 million, respectively.[447] The adjustment has a net zero impact on the MYRP Forecast revenue requirements, as the Company expects full recovery in the TCR Rider.

The Company noted that it coordinates the TCR Rider removal with its TCR Rider filings in an effort to ensure coordination between the rate case test year and the TCR Rider filing. Xcel however noted that rate case and rider filings calculate revenue requirements using different rate base averaging methodologies and certain inputs in the rider are required to use historically approved values. As such, there are variances in the revenue requirement calculations.

[445] Halama Direct, at 98, 14-26

[446] Halama Direct, at 99, 1-5.

[447] *Id*, at 99, 7-10.

3. Xcel Energy – Rebuttal

Xcel noted that, to ensure the costs and revenues for the TCR rider removal stay in sync, it needs to adjust the TCR rider removal to reflect the change in cost of debt agreed to in Section V.F.. The Company mentioned that, during discovery, it discovered an error in the calculation of internal labor amounts for the forecasted periods in the AMI project. This resulted in the capital adjustment in the TCR Rider removal in the rate case not being large enough – leaving too much AMI capital in the case.[448] The Company is making an adjustment to remove the additional costs included in the MYRP cost of service.

4. Department of Commerce - Surrebuttal

The Department noted that Company discovered an error in the calculation of internal labor amounts in the AMI project. Consequently, the Company reduced its 2022-2024 Minnesota Electric Jurisdiction revenue requirement by ($386,000), ($1,172,000), and ($2,012,000), respectively.[449]

The Department agreed with Xcel's update to the TCR Rider for the amounts above and considered this issue resolved.

5. Administrative Law Judge Report

Based on its findings on this issue, the ALJ concluded as follow:

> 126. The parties' agreement is reasonable, and the Judge recommends approving recovery based on the Company's updated revenue requirement.

6. References to the Record

Xcel, Benjamin Halama Direct, pp. 98-99.
Xcel, Benjamin Halama Surrebuttal, pp. 44-45.
DOC, Holly Soderbeck Surrebuttal, pp. 12-13.

7. Staff Comments

Staff concurs that this issue is resolved.

8. Decision Options

- Approve Xcel's updated revenue requirement impact of removing certain TCR Rider costs and revenues from rate case which results in 2022-2024 revenue requirement reductions of $0.386 million, $1.172 million, and $2.012 million, respectively. (Xcel, Department, ALJ. (Xcel, Department, ALJ)

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[448] Halama Rebuttal, at pages 44-45, 21-23 and 8-11.

[449] *Id,* at 13, 5-8.

M. Nuclear Production Tax Credits

Staff: Ashley Marcus

1. Issue

Should the Commission approve a nuclear production tax credit tracker and refund mechanism?

2. Xcel Energy – Rebuttal

Under the Inflation Reduction Act of 2022 (IRA), beginning in 2024, nuclear facilities will be eligible for base credits of 0.3 cents/kWh generated by existing nuclear facilities that could increase to 1.5 cents/kWh, provided certain prevailing wage and apprenticeship requirements are met. The amount of credit that can be earned and the calculation for PTCs is subject to forthcoming Internal Revenue Service (IRS) guidance. Due to the uncertainty, Xcel proposed to track actual nuclear PTCs earned and include them in the annual Fuel Clause Adjustment (FCA) rider for a customer refund.

3. Department of Commerce – Surrebuttal

The Department supported Xcel's recommendation to track its earned Nuclear Production Tax Credits and include the amount in the annual Fuel Clause Adjustment rider filing as a mechanism to return the Nuclear PTCs back to ratepayers. The Department noted that the Commission may consider an alternative method in future proceedings as more information becomes available. The Department considers this issue resolved.

4. Administrative Law Judge Report

The ALJ found:[450]

> 130. The parties' agreement is reasonable and the Judge recommends approving the Company's proposal for a new tracker and annual true-up via the Fuel Clause Adjustment (FCA) rider filing to return nuclear PTCs to customers if and when they are generated.

5. References to the Record

Xcel – 70 at 25-26 (Arend Rebuttal)
Xcel – 82 at 57-58 (Halama Rebuttal)
DOC – 5 at 13-15 (Soderbeck Surrebuttal)
ALJ Report 23 - 24

[450] ALJ Report at 24

6. Decision Options

- Approve Xcel's Nuclear Production Tax Credit tracker and refund in the annual Fuel Clause Adjustment Rider. (Xcel, Department, ALJ)

N. EV Program O&M Expense – FERC Account 912

Staff: Eric Willette

1. Issue

- Should requested EV Program O&M expenses be approved?

2. Xcel – Initial Filing

Consistent with the methodology used in prior rate cases, Xcel proposed, for each year of the MYRP, to include certain forecasted O&M associated with EV programs, in FERC Account 912.

3. Department of Commerce – Rebuttal

As shown in Table 53, the Department noted that 2022 through 2026 forecasted amounts were 10.5 times greater than the 2016 through 2021 historical/actual amounts.

Table 53: Actual and Company Proposed Amounts for Expense Account 912

Year	Company Proposed[84]	% Change YoY
2016A	$47,000	
2017A	$61,000	29.79%
2018A	$46,000	-24.59%
2019A	$82,000	78.26%
2020A	$2,165,000	2540.24%
2021A	$2,640,000	21.94%
2022F	$7,496,000	183.94%
2023F	$8,252,000	10.09%
2024F	$8,817,000	6.85%
2025F	$9,421,000	6.85%
2026F	$10,095,000	7.15%

for this account, when 2016 through 2021 historical/actual amounts, appeared out of line.

As a result, the Department recommended the adjustments shown in Table 54.

Table 54: Department's Recommended and Adjustment Amounts to Expense Account 912

Year	Department Recommended	% Change YoY of Recommendation	Department Adjustment
2022	$3,219,000	21.94%	($4,277,000)
2023	$3,544,000	10.09%	($4,708,000)
2024	$3,787,000	6.85%	($5,030,000)
2025	$4,046,000	6.85%	($5,375,000)
2026	$4,335,000	7.15%	($5,760,000)

4. Xcel Energy - Rebuttal

Xcel explained that its forecast was above historical trends because these programs have become more popular and the Commission continues to approve new EV programs.[451] Additionally, Xcel noted that the Department's proposal would overlap costs it had already removed.

5. Department of Commerce - Surrebuttal

After reviewing Xcel's rebuttal information, the Department withdrew its recommendation.

6. Administrative Law Judge Report

The ALJ found:

> 134. In rebuttal, the Company explained why the costs in FERC Account 912 had increased compared to previous years, and how the Department's proposal would overlap with costs it had already removed as part of its Rebuttal Testimony.
>
> 135. In light of the explanation and information provided by the Company, the Department withdrew its recommendation, and considered this issue resolved.
>
> 136. This agreement is reasonable and the Judge recommends approving the Company's proposal.

7. References to Record

Xcel, Mensen Rebuttal, pp.23-28
Xcel, Halama Rebuttal, pp. 41
DOC, Soderbeck Surrebuttal, pp. 17-18
ALJ Report, pp.24, Findings 131-136

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[451] Mensen Rebuttal at 26.

8. Decision Options

- Approve Xcel's proposals to include EV Program O&M Expense in FERC Account 912. (Xcel, Department, ALJ)

O. Excess Footage and Winter Construction Charges

This issue will be discussed in the Rate Design Volume.

P. Secondary Calculations

Staff: James Worlobah

1. Issue

Should the Commission approve Xcel's proposal that the final revenue requirement (if different from the Company's) will need to be updated for secondary calculations such as cash working capital, interest synchronization, and the application of the rate of return?

2. Xcel Energy –Rebuttal

a. ADIT Prorate – IRS Required

Xcel stated that IRS tax regulations in Sec. 1.167(l) define a prorated schedule to the extent average accumulated deferred income taxes (ADIT) can be used to reduce rate base to comply with the tax normalization requirements of the Code, when forecast information is used to set rates, which applies in this case. This secondary calculation limits the ADIT deduction from rate base by applying the IRS defined proration method to only the forecasted entries to this balance.

b. Cash Working Capital (CWC)

The final CWC level is a function of the final Commission-approved revenue and expenses and tax calculations. Therefore, this calculation will need to be revised after the Commission determines the final revenue requirement.[452] Once the final adjustments have been ordered, the Company will recalculate the CWC level to be included in final rates.

c. Change in Cost of Capital

The change in cost of capital adjustment is the difference between the overall cost of capital (also referred to as the overall rate of return, or ROR) being requested for each year of the MYRP and the effective cost of capital authorized in Docket No. E-002/GR-15-826.
The Company agreed with Department's recommendation that the Company update its cost of long-term debt and the cost of short-term debt to reflect the increase in interest rates since the Company filed its Direct Testimony.

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[452] Halama Rebuttal, at 46, 22-26.

Xcel claimed that the final rate of return adjustment to be included in this proceeding is a function of the final Commission approved rate base, the final approved debt/equity capitalization ratio, and the approved cost of debt/equity.[453]

d. Net Operating Loss

Xcel asserted that it is not currently in a net operating loss position; therefore, no adjustment is necessary.[454]

e. Interest Synchronization

The Company stated that the final level of interest synchronization is a function of the final Commission approved rate base, the final approved debt/equity capitalization ratio, and the approved weighted cost of debt. Once the Commission rules on these issues, the interest synchronization calculation can be finalized.[455]

3. Department of Commerce – Evidentiary Hearing Testimony

The Department concurred that update would be needed.

4. Administrative Law Judge Report

The ALJ Report recounted that the parties agreed that, to the extent the Commission does not accept the Company's revenue requirement proposal as set forth in Rebuttal Testimony, adjustments will affect "secondary calculations" such as the ADIT prorate, cash working capital, the cost of capital as applied to approved components of the revenue requirement, net operating loss, and interest synchronization. The ALJ Report concluded that:

> 143. The Judge recommends that the Commission should direct the Company to update these secondary calculations in any compliance filing determining the revenue requirements for the MYRP approved in this case.

5. References to the Record

Xcel, Benjamin Halama Rebuttal, pp. 46-47 and 49-50.

6. Staff Comments

Staff concurs that this issue is resolved.

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[453] *Id*, at 49, 4-7.

[454] *Id*, at 49, 12-13.

[455] *Id*, at 50, 10-12.

7. Decision Options

- Approve Xcel's proposal that the final revenue requirement (if different from the Company's) will need to be updated for secondary calculations such as cash working capital, interest synchronization, and the application of the rate of return. (Xcel, Department, ALJ)

Q. Software as a Service (SaaS)

Staff: Christine Pham

1. Issue

Should the Commission approve the Company's proposal to withdraw its request for deferred accounting for SaaS?

2. Xcel – Direct

The Company stated the technology market model has changed from owning software and supporting hardware to a new model focused on Software as a Service (SaaS) and other outsourced technology products which impacted the industry, and the way costs are recognized and recovered. The Company explained that with the SaaS model runs by vendor which they control and manage hardware and operating systems. Then the vendor charges a periodic fee to the customer to use this environment. The Company said the SaaS model decreased the amount of costs in capital investment and increased in O&M costs. Due to less capital, the Company also incurs a loss in rate base and the return on assets that comes with that rate base. The Company requested a new regulatory mechanism which would allow the Company to recover costs of technology projects as the industry transitioning to SaaS. In order words, the Company requested a deferral of O&M costs directly associated with the SaaS implementation.

3. Office of Attorney General – Direct

In its Direct Testimony the OAG disagreed with the Company request and stated the Company has not provided sufficient detail in its initial filing to support its request deferred accounting for SaaS costs. Specifically, the OAG said the Company did not provide the following:[456]

- Additional information on the existing premise system(s) the Company intends to replace with SaaS, and the reasons for replacement.
- Why the SaaS implementation costs would be incremental to the operating costs that are already included in base rates.
- Costs have been included in the Test Year and Plan Years for both SaaS and the existing on-premises system(s) that will be replaced by SaaS.
- Information on the operational savings that would result in the future years after the implementation of SaaS.

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456 Ex. OAG-2 at 32-39 (Lee Direct)

- Identify and provide further explanation about the specific risks associated with the transition to SaaS, and how it plans to manage and protect ratepayers from those risks.
- Provide the potential cost savings from SaaS and when the cost savings would materialize.
- Provide explanation why the SaaS implementation costs would be incremental to the operating costs that are already included in base rates.

Due to the lack of detailed information, the OAG recommended the Commission to deny the Company request for deferred accounting for SaaS implementation costs

4. Xcel Energy – Rebuttal

The Company withdrew its request for a deferral of the Company's O&M costs associated with the implementation of software as a service (SaaS). The Company explained that its Business Systems costs already include implementation and program costs for SaaS and cloud computing. Those were deferral of costs incurred outside the MYRP, therefore withdrawing this proposal has no effect on the revenue requirement. Additionally, the Company confirmed that the information provided on its direct testimony was for informational purposes only with the intention of pointing out potential issues related to SaaS, cloud-based computing, and other changes in the technology industry. The Company concluded no plan for transition to SaaS solutions; some software vendors that the Company contracts with will provide their programs as SaaS solutions, while others will offer on-premises solutions. The potential savings or costs of a SaaS versus on-premises solution must be determined on a case-by-case basis, just as the costs and benefits of one on-premises solution would be compared to another on-premises solution.

5. Office of Attorney General – Surrebuttal

The OAG confirmed that the Company has provided additional information regarding its SaaS implementation plans but failed to provide sufficient information to allow the Commission to evaluate whether the costs to be deferred meet the deferred accounting requirements in base rates. The OAG recognized that on the Company's Business Systems costs, already include implementation and program costs for SaaS and cloud computing, these costs already reflected in the Test Year/Plan Years and resulting future base rates. OAG added, in the future the Company should prepare to provide detailed cost information to show that the portion of costs to be deferred are truly incremental and ratepayers will not pay for costs that are already reflected in base rates.[457]

The OAG confirmed that the Company accepted OAG's recommendation and withdrew its request for a deferral of O&M costs associated with the SaaS cost.

6. Administrative Law Judge Report

The ALJ found:

[457] Ex. OAG-9 at 6 (Lee Surrebuttal)

144. The OAG initially recommended denial of the Company's request to defer future costs associated with SaaS investments. In Rebuttal Testimony, the Company agreed to remove its request for deferral of costs associated with SaaS. The Company also noted that because the initial proposal was a deferral of costs incurred outside the MYRP, withdrawing this proposal has no effect on the revenue requirement.

145. The OAG agreed that it would be reasonable for the Company to withdraw this request.

146. The Judge agrees that it would be reasonable for the Company to withdraw its proposed deferred accounting mechanism for SaaS costs from consideration.

7. References of Record

Xcel-85 at 55-58 (Moeller Direct)
Xcel-51 at13-18 (Remington Rebuttal)
OAG-2 at 29-39 (Lee Direct)
OAG-9 at 2-6 (Lee Surrebuttal)
ALJ Report, pp. 31-32

8. Decision Options

- Approve Xcel's offer to withdraw its request for deferred accounting for SaaS. (Xcel. OAG. ALJ)

R. Capital True-up

Staff: James Worlobah

1. Issue

Should the Commission approve Xcel's proposed capital true-up modeled after 2015 MYRP capital true-up?

2. Xcel Energy – Direct

Xcel asserted that it will not over-collect for its capital investments during the MYRP, as a capital true-up mechanism modeled after the mechanism approved by the Commission for the 2016-2019 MYRP had been proposed.[458] The Company stated that it will make refunds if its capital-related revenue requirements, in any year, fall below the Commission-approved capital-related revenue requirements, but would not surcharge customers if the reverse holds true.

[458] Chamberlain Direct, at 36, 3-9.

3. Administrative Law Judge Report

The ALJ found:

> 174. No other party took a position on the proposal.
>
> 175. The Judge recommends that the Commission approve the Company's proposed capital true-up for the three-year MYRP. The proposal provides the Company with flexibility to manage its business while protecting customers from any overbudgeting by the Company.

4. References to the Record

Xcel, Greg Chamberlain Direct, p. 36, 48.

5. Staff Comments

No other party commented and/or took a position on the Company's proposed capital true-up for the three-year MYRP. Therefore, Staff agrees that this issue is resolved.

6. Decision Options

- Approve Xcel's proposed capital true-up. (Xcel, ALJ)

S. Property Tax True-Up

Staff: Eric Willette

1. Issue

- Should the Commission approve Xcel's proposal for a Property Tax True-Up during this MYRP?

2. Xcel Energy - Direct

Xcel proposed to continue its property tax true-up that has been in place since 2016.

3. Department of Commerce – Direct

The Department agreed that the property tax true-up should be extended though the duration of this MYRP.

4. ALJ Report

The ALJ found:

> 180. No party opposed the proposed property tax true-up. Continuing the

property tax true-up mechanism established in Xcel's 2015 rate case reasonably balances ratepayer and shareholder interests by ensuring that Xcel neither over- nor under-recovers its property tax expense.

181. The Company's proposed property tax true-up process is reasonable and should be adopted.

5. References to Record

Xcel, Arend Direct, pp.20-22
Xcel, Lyons Direct, pp. 8
Xcel, Chamberlain Direct, pp. 50-51
Xcel, Arend Rebuttal, pp.22-25
Xcel, Liberkowski Rebuttal, pp.16-17
ALJ Report, pp.30-31, Findings 176-181

6. Decision Options

- Approve Xcel's proposal to continue its Property Tax True-Up during this MYRP. (Xcel, DOC, ALJ)

T. Non-Regulated Allocation Reporting Requirements

Staff: Ashley Marcus

1. Issue

Should allocation reporting for Xcel's transmission affiliates be discontinued?

2. Xcel Energy – Direct

Xcel proposed to discontinue allocation reporting related to Xcel Energy Transmission Development Company, LLC, or Xcel Energy Southwest Transmission Company, LLC. The detail was ordered in Docket No. E-002/AI-14-759 but there is nothing to report because the transmission companies have not undertaken any relevant projects.

3. Department of Commerce – Direct

The Department agreed with Xcel's proposal to discontinue allocation reporting requirements for its transmission affiliates unless or until they perform such work.

4. Xcel Energy – Rebuttal

Xcel acknowledged the Department's agreement with the proposal.

5. Department of Commerce – Surrebuttal

The Department considers this issue resolved.

6. Administrative Law Judge Report

The ALJ found:[459]

> 187. The record supports, and the Judge recommends, that the Company should be released from any further reporting requirements related to Xcel Energy Transmission Development Company, LLC, or Xcel Energy Southwest Transmission Company, LLC, until any work is undertaken by these affiliates.

7. References to the Record

XCEL – 60 at 26-28 (Baumgarten Direct)
DOC – 21 & 22 at 58-59 (Campbell Direct)
XCEL – 61 at 2 (Doyle Rebuttal)
DOC – 23 at 8-9 (Campbell Surrebuttal)
ALJ Report at 32

8. Decision Options

- Adopt Xcel's proposal to suspend the allocation reporting requirements for Xcel Energy's transmission affiliates unless or until such work is undertaken by Xcel Energy Transmission Development Company, LLC, or Xcel Energy Southwest Transmission Company, LLC. (Xcel, Department, ALJ)

[459] ALJ Report at 32

III. DECISION OPTIONS

A. Disputed Financial Issues

Sherco Unit 3 and King Coal Plant Depreciation (pp. 1-12)

1000. Accelerate the remaining lives for Sherco Unit 3 and King beginning in 2024 as proposed by Xcel resulting in a 2024 revenue requirement increases of $35.092 million. (Xcel)

1001. Allow Xcel to defer Sherco and King's incremental depreciation expense until the Company's next rate case and allow the Company to introduce a recovery proposal for those costs in that rate case. (Xcel alternative)

1002. Accelerate the remaining lives for Sherco Unit 3 and King beginning in 2023 as proposed by the Department resulting in 2023 and 2024 revenue requirement increases of $29.021 million and $27.588 million, respectively. (DOC)

1003. Deny Xcel's request to change the remaining lives of Sherco Unit 3 and King. (OAG, XLI, ALJ)

1004. Order that, when Sherco Unit 3 and King are retired, the facilities should be removed from rate base but that Xcel may continue to recover depreciation expense, O&M expense, property taxes, and property insurance. (XLI, ALJ)

1005. Direct the Executive Secretary to open a new docket to examine Sherco 3 and King's remaining depreciation. (OAG)

1006. Direct the Executive Secretary to open a new docket to investigate ratemaking for retired generating facilities. (XLI, ALJ).

Long Term Incentive Compensation (pp. 12-18)

1007. Approve Xcel's MN Jurisdictional 2022-2024 long term incentive compensation expense of $7.877 million, $8.178 million, and $8.531 million, respectively. (Xcel)

1008. Deny Xcel's recovery request of MN Jurisdictional 2022-2024 long term incentive compensation expense of $7.877 million, $8.178 million, and $8.531 million, respectively. (Department, XLI, ALJ)

Annual Incentive Plan (pp. 19 – 25)

<u>Recovery Cap</u>

1009. Order Xcel Energy to cap its recovery of annual incentive plan compensation expense at 20 percent of aggregate base pay and 100 percent target payout. (Xcel)

1010. Order Xcel Energy to cap its recovery of annual incentive plan compensation expense at

15 percent of individual base pay and 100 percent target payout. (Department, XLI)

1011. Order Xcel Energy to cap its recovery of annual incentive plan compensation expense at 20 percent of individual base pay and 100 percent target payout. (ALJ)

<u>Test Year Expenses</u>

1012. Approve Xcel's 2022-2024 MN jurisdictional annual incentive plan compensation expense of $24.005 million, $24.750 million, and $25.524 million, respectively. (Xcel, ALJ)

1013. Approve Xcel's 2022-2024 MN jurisdictional annual incentive plan compensation expense of $22.878 million, $23.589 million and $24.324 million, respectively which results in 2022-2024 revenue requirement reductions of $1.127 million, $1.161 million and $1.197 million, respectively. (Department, XLI)

1014. Approve Xcel's 2025-2026 MN jurisdictional annual incentive plan compensation expense of $25.004 million and $25.756 million, respectively. (Department, XLI)

<u>Compliance Filings</u>

1015. Order Xcel to discontinue the annual compliance filings and associated refund requirement. (Xcel)

1016. Order Xcel Energy to continue the annual compliance filings evaluating the operation and performance of its incentive compensation plan with the following changes:
    - The amounts of AIP paid should be compared to the amount authorized in rates on an aggregate level.
    - Eliminate the calculation to determine whether it is under 105 percent of median overall compensation.
    - Eliminate calculations and breakdowns across business units, employee groups and varying AIP cap levels, as well as the respective allocations across business units. (Xcel alternative)

1017. Order Xcel to continue the annual compliance filings evaluating the operation and performance of its incentive compensation plan and the associated refund with no changes to reporting requirements. (Department, ALJ)

1018. Order Xcel to provide support in its next annual incentive compensation compliance filing for any requested reporting changes. (Department, ALJ)

Prepaid Pension Asset (pp. 25-41)

1019. Approve Xcel's request to include its Prepaid Pension Asset in rate base to earn a WACC return. (Xcel)

1020. Deny Xcel's request to include its Prepaid Pension Asset in rate base to earn a WACC return. (Department, XLI, ALJ)

1021. If Xcel's Prepaid Pension Asset is removed from rate base, allow Xcel to recalculate its qualified pension expense without applying the expected return to the prepayment portion of the pension trust to reflect the revised pension expense in rates thus increasing 2022-2024 revenue requirements by $7.948 million, $8.211 million and $9.061 million, respectively. (ALJ, Xcel)

1022. If Xcel's Prepaid Pension Asset is removed from rate base, do not allow Xcel to recalculate its qualified pension expense without applying the expected return to the prepayment portion of the pension trust to reflect the revised pension expense in rates. (Department, XLI)

Accrued Liabilities for Retiree Medical and Post- Employment Benefits (pp. 41-47)

1023. Approve Xcel's proposal that the accrued liabilities for retiree medical and post-employment benefits be included in the rate base and earn a WACC return. (Xcel)

1024. Deny Xcel's proposal that the accrued liabilities for retiree medical and post-employment benefits be included in the rate base and earn a WACC return. (ALJ, Department, XLI)

Generation O&M Expenses (pp. 48-53)

1025. Approve recovery of Xcel's 2022-2024 Generation O&M expenses totaling $154.6 million, $160.8 million and $157.7 million, respectively. (Xcel, ALJ)

1026. Approve recovery of Xcel's 2022-2024 Generation O&M expenses totaling $149.3 million, $155.5 million and $152.4 million, respectively which results in an annual 2022-2024 revenue requirement reduction of $5.3 million. (DOC)

Business Systems O&M Expenses (pp. 53-56)

1027. Approve Xcel's 2022-2024 business systems O&M expenses of $89.9 million, $96.2 million, and $103.8 million, respectively. (Xcel, ALJ)

1028. Approve Xcel's 2022-2024 business systems O&M expenses of $84.3 million, $90.6 million, and $96.9 million, respectively which results in a 2022-2024 revenue requirement reduction of $5.5 million, $5.5 million, and $6.9 million, respectively. (Department)

Property Tax Expenses (pp. 56-61)

1029. Approve Xcel's 2022-2024 property tax expense recoveries of $180.012 million, $192.570 million, and $208.503 million, respectively. (Xcel)

1030. Approve Xcel's 2022-2024 property tax expense recoveries of $165.930 million,

$169.889 million, and $173.946 million, respectively which results in a 2022-2024 revenue requirement reduction of $14.082 million, $22.681 million, and $34.107 million, respectively. (Department, ALJ)

1031. Approve the property tax true-up mechanism for the duration of the MYRP. (Xcel, Department, ALJ)

1032. Approve the Department's proposal to cap the property tax true-up so that surcharges may not exceed 5% of the Department's recommended property tax level. (Department proposed but later withdrew)

Income Tax Tracker Amortization (pp. 61-66)

1033. Approve Xcel's request to recover its income tax tracker amount which results in an annual 2022-2024 amortization expense of $2,105,000. (Xcel)

1034. Deny Xcel's request to recover its income tax tracker amount which results in a 2022-2024 revenue requirement reduction of $2.492 million, $2.300 million, and $2.110 million, respectively. (Department, ALJ)

South Dakota Aurora Cost Amortization (pp. 66 – 70)

1035. Approve Xcel's request to recover Aurora's deferred costs for the difference between the contracted power purchase agreement price and South Dakota Public Utilities Commission proxy price. (Xcel)

1036. Approve Xcel's request to recover, through the FCA starting January 1, 2024, Aurora's deferred costs for the difference between the contracted power purchase agreement price and South Dakota Public Utilities Commission proxy price. (Xcel)

1037. Deny Xcel's request to recover Aurora's deferred costs for the difference between the contracted power purchase agreement price and South Dakota Public Utilities Commission proxy price which results in a 2022-2023 revenue requirement reduction of $2.857 million and $2.689, respectively. (Department, ALJ)

1038. Do not approve Xcel's request to recover, through the FCA starting January 1, 2024, Aurora's deferred costs for the difference between the contracted power purchase agreement price and South Dakota Public Utilities Commission proxy price. (Department, ALJ)

Business Incentive and Sustainability (BIS) Rider Amortization (pp. 70-72)

1039. Approve Xcel's request to amortize deferred COVID-related BIS Rider expenses. (Xcel, ALJ, DOC)

Other Amortization Expenses - Rate Case Expenses, LED Deferrals, and Deferred Pension Expenses (pp. 72-74)

1040. Approve Xcel's amortization period of three years for LED street lighting, rate expense and deferred pension expense. (Xcel, Department, ALJ)

[If approved MYRP is different than three years:]

1041. Approve Xcel's amortization period to match the term of the MYRP for LED street lighting, rate expense and deferred pension expense. (Xcel, Department, ALJ)

Luverne Wind2Battery System (pp. 74 – 81)

Reserve Reallocation

1042. Approve Xcel's request to perform a reserve reallocation in the amount of $5.6 million that would shift reserves from the remaining Other Production plants and move them to the Wind2Battery asset. (Xcel)

1043. Deny Xcel's request to perform a reserve reallocation in the amount of $5.6 million that would shift reserves from the remaining Other Production plants and move them to the Wind2Battery asset. (DOC, OAG, ALJ)

And if decision option 1043 is chosen, then (choose one of the following):

1044. Approve a reserve reallocation of $2.14 million for recovery of a reasonable cost to dismantle the Wind2Battery system and require Xcel to perform the proposed "inverse reverse allocation" of reallocated amounts if actual costs are lower than the $2.14 million. (ALJ, Xcel alternate)

1045. Deny recovery of $5.6 million disposal cost. (DOC, OAG)

2022 Test Year Depreciation Expense

1046. Approve Xcel's 2022 proposed $300,000 depreciation expense. (Xcel)

1047. Do not approve Xcel's 2022 proposed $300,000 depreciation expense. (OAG, ALJ) [DOC did not comment]

Xcel's Requested Reserve Allocation

1048. Approve adjustments to Xcel's revenue requirement for the disallowance of Xcel's requested reserve allocation in excess of the worst-case disposal limit, as shown in the table below. (DOC, ALJ) [OAG did not comment]

Luverne Wind2Battery Removal Costs – Revenue Requirement Impact

2022	2023	2024	2025	2026
$217,000	$182,000	$156,000	$142,000	$121,000

Beginning Test Year Balance (pp. 81-83)

1049. Allow Xcel to use its forecasted 2022 beginning of the year plant balance of $9,877,494,000. (Xcel)

1050. Order Xcel to use its actual 2022 beginning of the year plant balance of $9,835,166.000, which reduces 2022 average rate base by $21.164 million and 2022 revenue requirements by $2.005 million. (Department, ALJ)

Construction Work in Progress (pp. 83-86)

1051. Approve Xcel's proposal to include CWIP in rate base as an average of projected CWIP beginning and ending balances. (Xcel, ALJ)

1052. Reject Xcel's request to include CWIP in rate base, or alternatively, decrease approved ROE if CWIP is approved. (Commercial Group)

Fault Location Isolation and Service Restoration (FLISR) (pp. 86-97)

<u>Approval and Cost Benefit Analysis</u>

1053. Find that Xcel's FLISR cost-benefit analysis is reasonable. (Xcel, DOC, ALJ)

1054. Approve Xcel's request to recover 2022-2024 FLISR program costs. (Xcel)

1055. Order Xcel to modify its cost-benefit analysis by excluding June 2013 data and any other extreme outage event. Order that any cost recovery for the FLISR program be capped based on the benefits from the modified cost-benefit analysis. (CEO)

<u>Cost Allocations</u>

1056. Approve Xcel's proposed FLISR Cost Allocation. (Xcel, ALJ)

1057. Order FLISR program costs to be allocated 97% to demand. (DOC initial recommendation)

1058. Order Xcel to directly allocate FLISR costs to demand class customers in its next rate case. (DOC alternative)

<u>FLISR Deployment Strategy</u>

1059. Approve Xcel's FLISR deployment strategy. (Xcel, ALJ)

1060. Require Xcel's FLISR deployment strategy to focus by circuit according to relative cost-effectiveness of each circuit. (DOC)

1061. Require Xcel's FLISR deployment strategy to focus on feeders that have experienced recent mainline feeder outage events. (CEO)

<u>FLISR Performance Evaluation</u>

1062. Order Xcel to track and report on reliability performance for circuits equipped with FLISR as recommended by the Department. (DOC, ALJ)

1063. Establish metrics and performance targets for FLISR and make future recoveries contingent on achievement of performance targets. (DOC)

Other Distribution Capital Additions – Asset Health and Reliability, Cable Replacement Program, and Grid Reinforcement Program (pp. 97-106)

<u>AH&R and Cable Replacements</u>

1064. Approve Xcel's 2022-2024 MN jurisdictional distribution capital addition costs for asset health and reliability of $168.9 million, $180.8 million, and $205.0 million, respectively. (Xcel, ALJ)

1065. Approve Xcel's 2022-2024 MN jurisdictional distribution capital addition costs, excluding cable replacements, for asset health and reliability of $136.2 million, $146.5 million, and $169.6 million, respectively. (JSC)

1066. Require Xcel to develop a cost-benefit analysis for its planned increase in discretionary AH&R capital additions and establish a cost cap for AH&R equivalent to the value of the demonstrated benefits. (CEOs)

<u>Cable Replacement Reporting Requirements</u>

1067. Require Xcel to track its planned and actual spending on reactive and proactive cable replacements and include the information in its next rate case filing. (JSC, ALJ)

1068. Require Xcel to track its planned and actual spending on reactive and proactive cable replacements and include the information as part of its IDP budget filing. (Staff)

1069. Do not require Xcel to track its planned and actual spending on reactive and proactive cable replacements. (Xcel)

Grid Reinforcement Program

1070. Approve Xcel's 2022-2024 MN jurisdictional distribution capital addition costs for the Grid Reinforcement Program of $1.6 million, $3.5 million, and $7.0 million, respectively. (Xcel)
1071. Reject Xcel's distribution capital addition costs for the grid reinforcement program for the 2022 – 2024 test years. (OAG, JSC, ALJ)

1072. Order Xcel to conduct a revenue offset analysis for EV-related residential service, secondary, and service transformer upgrades. (JSC)

1073. Order Xcel to waive any residential customer upfront costs related to service, secondary, and service transformer upgrades for EV load additions. (JSC)

Distributed Intelligence (DI) Capital Additions and O&M Cost (pp. 106-115)

1074. Approve the Distributed Intelligence program including:

- $37.8 million (NSPM total company) in 2024 capital additions
- O&M Costs Of:
    - 2022 – $0.3 million
    - 2023 – $1.7 million
    - 2024 – $2.0 million (Xcel, CEO)

1075. Reject Xcel's proposal for the Distributed Intelligence program. (ALJ, DOC)

1076. Approve the Distributed Intelligence program with the following Minnesota Jurisdiction adjustments: (ALJ alternative)

- Rate Base: $3.1 million for 2022, $12.1 million for 2023 and $24.6 million for 2024.
- O&M: $303,000 for 2022, $1.528 million for 2023 and $1.7 million for 2024.

Conditions if DI is approved:

1077. Order Xcel to account for the DI program as an enterprise-wide shared asset. (DOC, OAG)

1078. Accept Xcel's agreement to implement the Distributed Intelligence program consistent with the DI Settlement Agreement with Xcel's Colorado operating company as it relates to third-party data access and HAN deployment. (Xcel, CEO)

Production Tax Credits (pp. 115-120)

1079. Approve the Xcel's recommended baseline Production Tax Credits, as filed. (Xcel)

1080. Approve the Department's recommended baseline Production Tax Credits update which reduces 2022-2024 revenue requirements by $27,584,000, $1,288,000 and $1,353,000, respectively. (Department, ALJ)

Nuclear Carbon Free Power Project (pp. 120-121)

1081. Reduce Xcel's 2022-2024 Nuclear Carbon Free Power Project revenue requirements by $774,000, $798,000, and $821,000, respectively. (Xcel, Department, ALJ)

1082. Reduce Xcel's 2025-2026 Nuclear Carbon Free Power Project revenue requirements by $821,000 for each year. (Department)

1083. Order a compliance filing to break out the costs for each employee that was transferred from Xcel Energy Service to Nuclear Energy Services to show how the adjustments were calculated. (Department, ALJ)

Load Flexibility Program Costs (pp. 121-123)

1084. Approve Xcel's proposal to recover costs for the load flexibility program that were not deferred which increases 2023-2024 revenue requirements by $0.870 million and $1.136 million, respectively. (Xcel, ALJ)

1085. Deny Xcel's proposal to recover additional costs for the load flexibility program. (OAG)

Integrated Volt-Var Optimization (pp. 124 – 125)

1086. Approve Xcel's proposal to include $0.2 million in IVVO investments in the 2023 test year. (Xcel)

1087. Order Xcel to remove $0.2 million in IVVO investments from the 2023 test year. (Department, ALJ)

1088. Approve Xcel's proposal to remove from rate base $1.8 million in IVVO investments from 2024 test year which results in a 2024 revenue reduction of $376,000. (Xcel, ALJ)

1089. Order Xcel to remove from rate base $3.7 million in IVVO investments from the 2024 test year. (Department)

Insurance Premium Expenses (pp. 126-130)

1090. Approve Xcel's 2022-2024 insurance premium costs of $20.7 million, $22.4 million, and $25.2 million, respectively. (Xcel, ALJ)

1091. Order Xcel to base 2022-2024 insurance premium costs on historical averages as proposed by the Department which results in 2022-2024 revenue requirement reductions of $9.274 million, $10.017 million, and $11.311 million, respectively. (Department)

Organizational Dues (pp. 130-136)

1092. Approve Xcel's request to recover EEI dues. (Xcel)

1093. Reject Xcel's request to recover EEI dues. (ALJ, OAG, JSC)

1094. Approve Xcel's request to recover AGA dues. (Xcel, ALJ)

1095. Reject Xcel's request to recover AGA dues. (OAG, JSC)

1096. Approve Xcel's request to recover Chambers of Commerce dues. (Xcel, ALJ)

1097. Allow Xcel's to recover 50% of its Chambers of Commerce dues. (OAG)

1098. Require Xcel to continue providing information mandated by M.S. 216B.16, subd. 17, for all dues costs it seeks to recover regardless of the type of membership (individual, corporate, or chamber) (OAG)

1099. Approve 2022-2024 Carbon-Free Future MN Coalition cost recovery of $935,946, $93,595 and $93,595, respectively.

1100. Disallow some or all 2022-2024 Carbon-Free Future MN Coalition costs and, if so, determine the disallowance amounts for each year.

Advertising Costs (pp. 136-138)

1101. Approve recovery of Xcel's advertising expenses. (Xcel, ALJ)

1102. Disallow 50% recovery of advertising expenses included in FERC account 912. (OAG)

B. Resolved Financial Issues

Nuclear Decommissioning Accrual (pp. 138-140)

1103. Approve Xcel's nuclear decommissioning accrual of $21,571,110, Minnesota jurisdictional, thus reducing the revenue requirement by $5,375,117 from each test year. (Xcel, Department)

Nuclear Hydrogen O&M (pp. 140-141)

1104. Approve the Department's recommendation to reduce Xcel's 2022-2024 nuclear hydrogen O&M expense of $1.099 million, $0.509 million, and $1.345 million, respectively. (Xcel, Department, ALJ)

Monticello Nuclear Plant Life Extension (pp. 142-143)

1105. Order Xcel to extend the depreciation life of the Monticello nuclear plant by 10 years. (Xcel, Department, ALJ)

1106. Approve Xcel's 2023-2024 revenue requirement reduction of $34.5 million and $33.3 million, respectively. (Xcel, Department, ALJ)

1107. Approve Xcel's 2025-2026 revenue requirement reduction of $32.3 million and $30.6 million, respectively. (Department)

Wind Farm Life Extension (pp. 143-146)

1108. Order Xcel to extend wind farms life from 25 to 35 years which results in 2022-2024 revenue requirement reductions of $20.809 million, $19.330 million, and $17.864 million, respectively. (DOC, Xcel, ALJ)

Pension Expense and Deferred Balance (pp. 146-150)

1109. Approve Xcel's request for recovery of pension expense associated with Xcel Plan using Aggregate Cost Method, and XES Plan using FAS 87 along with amortization of the XES Plan deferred balance over three years. (Xcel, Department, ALJ)

Transformer Sales (pp. 150-151)

1110. Approve Xcel's adjustments related to the three transformer sales in 2022 which results in 2022-2024 revenue requirement reductions of $0.612 million, $0.210 million, and $0.169 million, respectively. (Xcel, DOC, ALJ)

North Dakota Investment Tax Credit (pp. 150-151)

1111. Order Xcel Energy to include the Minnesota portion of the North Dakota Investment Tax Credit in the revenue requirement calculations which results in 2022-2024 revenue requirement reductions of $0.347 million, $0.496 million, and $0.712 million, respectively. (Xcel, Department, ALJ)

EV Deferral Update (pp. 151-153)

1112. Approve recovery of EV deferred costs, updated as of December 31, 2021, over a 3-year amortization period which results in 2022-2024 revenue requirement increases of $0.305 million, $0.287 million, and $0.270 million, respectively. (Xcel, DOC, ALJ)

EV Rebates (pp. 153-155)

1113. Approve the removal proposed EV costs totaling:

2022 - $6,238,000
2023 - $16,124,000
2024 - $21,577,000

EV Program (pp. 155-156)

1114. Order Xcel to remove EV program costs from this rate case which results in 2022-2024 revenue requirement reductions of $1.067 million, $2.528 million, and $6.517 million, respectively. (Xcel, Department, ALJ)

Legacy Meter Regulatory Asset (pp. 156-158)

1115. Approve Xcel's request to transfer any remaining book value of legacy meters at time of complete AMI meter deployment to a regulatory asset and deferred for recovery to its next rate case. (Xcel, DOC, ALJ)

Transmission Cost Recovery (TCR) Rider Removal (pp. 158-159)

1116. Approve Xcel's updated revenue requirement impact of removing certain TCR Rider costs and revenues from rate case which results in 2022-2024 revenue requirement reductions of $0.386 million, $1.172 million, and $2.012 million, respectively. (Xcel, Department, ALJ)

Nuclear Production Tax Credits (pp. 160-161)

1117. Approve Xcel's Nuclear Production Tax Credit tracker and refund in the annual Fuel Clause Adjustment Rider. (Xcel, Department, ALJ)

EV Program O&M Expense – FERC Account 912 (pp. 161-163)

1118. Approve Xcel's proposals to include EV Program O&M Expense in FERC Account 912. (Xcel, Department, ALJ)

Secondary Calculations (pp. 163-165)

1119. Approve Xcel's proposal that the final revenue requirement (if different from the Company's) will need to be updated for secondary calculations such as cash working capital, interest synchronization, and the application of the rate of return. (Xcel, Department, ALJ)

Software as a Service (pp. 165-167)

1120. Approve Xcel's offer to withdraw its request for deferred accounting for SaaS. (Xcel. OAG. ALJ)

Capital True-Up (pp. 167-168)

1121. Approve Xcel’s proposed capital true-up. (Xcel, ALJ)

Property Tax True-Up (pp. 168-169)

1122. Approve Xcel’s proposal to continue its Property Tax True-Up during this MYRP. (Xcel, DOC, ALJ)

Non-Regulated Allocation Reporting Requirements (pp. 169-170)

1123. Adopt Xcel’s proposal to suspend the allocation reporting requirements for Xcel Energy’s transmission affiliates unless or until such work is undertaken by Xcel Energy Transmission Development Company, LLC, or Xcel Energy Southwest Transmission Company, LLC. (Xcel, Department, ALJ)