

Staff Briefing Papers

Meeting Date April 8, 2021 Agenda Item 3**

Company Northern States Power Company d/b/a Xcel Energy

Docket No. **G-002/M-19-664**

In the Matter of the Petition of Northern States Power Company, for Approval of a Gas Utility Infrastructure Cost Rider True-up Report for 2019, Revenue Requirements for 2020, and Revised Adjustment Factors

- Issues
1. Should the Commission approve or modify Xcel Energy’s proposed 2020 Gas Utility Infrastructure Cost (GUIC) Rider revenue requirement and adjustment factors?
 2. Should the Commission accept Xcel Energy’s GUIC Rider 2019 True-up Report?

Staff	Jason Bonnett	jason.bonnett@state.mn.us	651-201-2235
	Andrew Larson	andrew.m.larson@state.mn.us	651-201-2259

 **Relevant Documents**

Date

Northern States Power Company d/b/a Xcel Energy – Initial Petition	October 25, 2019
Minnesota Department of Commerce, Division of Energy Resources - Comments	September 16, 2020
Northern States Power Company d/b/a Xcel Energy – Reply Comments	September 28, 2020

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

Table of Contents

I.	Statement of the Issues.....	1
II.	Introduction and Background.....	1
	A. Introduction	1
	B. Background	2
	1. 2015 GUIC – the 14-336 Docket	2
	2. 2016 GUIC – the 15-808 Docket	2
	3. 2017 GUIC – the 16-891 Docket	3
	4. 2018 GUIC – the 17-787 Docket	4
	5. 2019 GUIC – the 18-692 Docket	4
	C. 2020 GUIC – the 19-664 Docket (this docket)	5
III.	Xcel Energy’s Petition.....	5
IV.	Discussion of Issues.....	7
	A. Sales Forecast.....	7
	1. Background	7
	2. Department Comments.....	8
	3. Xcel Energy Reply Comments	8
	4. Staff Analysis	8
	B. TIMP – Programmatic Replacement and MAOP Remediation.....	9
	1. Background	9
	2. Department Comments.....	10
	3. Xcel Energy Reply Comments	10
	4. Staff Analysis	10
	C. Internal Capitalized Costs	12
	1. Background	12
	2. Department Comments.....	12
	3. Xcel Energy Reply Comments	13
	4. Staff Analysis	13
	D. Risk Assessment and Performance Metrics.....	15
	1. Background	15
	2. Department Comments.....	15
	3. Xcel Energy Reply Comments	16
	4. Staff Analysis	17
V.	Decision Alternatives.....	18

I. Statement of the Issues

- Should the Commission approve or modify Xcel Energy's proposed 2020 Gas Utility Infrastructure Cost Rider revenue requirement and adjustment factors?
- Should the Commission accept Xcel Energy's 2019 True-up Report?

II. Introduction and Background

A. Introduction

Northern States Power Company d/b/a Xcel Energy (Xcel Energy or the Company) is seeking approval of its updated Gas Utility Infrastructure Cost (GUIC) Rider to be in effect March 1, 2020 through February 28, 2021.¹ The Company requested that it be allowed to recover its forecasted 2020 GUIC revenue requirement of approximately \$21.3 million,² subject to actual cost true-up. Xcel Energy's GUIC request for cost recovery includes expenditures for integrity management programs and deferred costs.

Integrity Management Programs were introduced pursuant to the Pipeline Safety Improvement Act, passed by the U.S. Congress in 2002. The law directed the U.S. Department of Transportation to promulgate rules to address integrity programs for gas transmission lines. A Transmission Integrity Management Program (TIMP) is a prescriptive risk-based program with the objective to improve pipeline safety; gas transmission operators are required to assess the health and condition of a utility's gas transmission assets, and evaluate and prioritize repairs to mitigate the risks and threats related to operating these assets.

In 2009, the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration (PHMSA) published the final Distribution Integrity Management Program (DIMP) rule establishing integrity management requirements for gas distribution pipeline systems. The DIMP rules are intended to help gas distribution utilities identify, prioritize, and evaluate risks, identify, and implement measures to address risk, and validate the integrity of their gas distribution system.

In 2005, the Minnesota Legislature enacted Minnesota (Minn.) Statute (Stat.) section (§) 216B.1635, the Recovery of Gas Utility Infrastructure Costs statute (GUIC statute), permitting gas utilities to file petitions for a rate schedule to recover certain costs of GUIC-defined projects. In 2013, the GUIC statute was amended which, in part, expanded both the definition of GUIC projects and the eligible rider-recoverable costs.³

¹ Xcel Energy's *Petition* at 34.

² *Id.* at 1, 29. The Company's proposed \$21.3 million revenue requirement for 2020 assumes no GUIC tracker carryover balance from prior years. *Id.* at 1.

³ A complete copy of Minn. Stat. § 216B.1635 is attached to these briefing papers.

Prior to the GUIC statute amendments, the Minnesota Public Utilities Commission (Commission) granted Xcel Energy deferred accounting for incremental TIMP/DIMP initiatives and for its sewer and gas line conflict-remediation program required by the Minnesota Office of Pipeline Safety (MNOPS).⁴ In its January 27, 2015 Order (Docket No. G-002/M-14-336), the Commission approved the commencement of a five-year amortization recovery of these deferred costs through the GUIC Rider. The deferred cost recovery was completed in 2019.

B. Background

1. 2015 GUIC – the 14-336 Docket

In Xcel Energy's inaugural GUIC petition, Docket No. G-002/M-14-336 (14-336 Docket), the Company requested approval of a new tariffed rate rider to recover Gas Utility Infrastructure Costs under Minn. Stat. § 216B.1635. On January 27, 2015, the Commission issued its *Order Approving Rider with Modifications*.

In the 14-336 Docket, the Commission approved Xcel Energy's proposed GUIC rider with the following modifications:

- a reduced overall rate of return, calculated using the capital structure and cost of debt from Xcel Energy's then pending electric rate case⁵ and the cost of equity from Xcel Energy's last natural gas rate case;⁶
- a rate design that allocates responsibility for the GUIC rider revenue requirement according to the revenue apportionment approved in Xcel Energy's last natural gas rate case;⁷ and
- an effective date as of the date of the January 27, 2015 order, with final rate-adjustment factors calculated to recover 2015 revenue requirement over the remaining months of 2015.

2. 2016 GUIC – the 15-808 Docket

In Xcel Energy's 2015 true-up report and request for 2016 forecasted revenue requirement and revised adjustment factor, in Docket No. G-002/M-15-808 (15-808 Docket), the Company requested approval of its 2015 true-up report and 2016 GUIC revenue requirements along with implementation of a new Federal Code Mitigation project and a request to modify the effective period of the GUIC rider factor to be in place through March 31st, rather than December 31st.

⁴ See Docket Nos. G-002/M-10-422 and G-002/M-12-248, respectively.

⁵ Docket No. E-002/GR-13-868.

⁶ Docket No. G-002/GR-09-1153.

⁷ *Id.*

In the 15-808 Docket *Order*, the Commission approved Xcel Energy's 2015 true-up report and 2016 GUIC revenue requirements and revised adjustment factors with the following modifications:

- approved an overall rate of return of 7.34 percent;
- required Xcel Energy to develop specific metrics to measure the appropriateness of GUIC expenditures, to be included in future GUIC Rider filings, and provide stakeholders the opportunity for meaningful involvement; and
- required Xcel Energy to include specific information about each individual project in future GUIC Rider filings that sufficiently, (1) describes what the project is, (2) explains why the project is necessary, (3) discusses what benefits ratepayers will receive from the project, and (4) identifies the agency, regulation, or order that requires the project.

3. 2017 GUIC – the 16-891 Docket

In Xcel Energy's 2016 true-up report and request for 2017 forecasted revenue requirement and revised adjustment factor, in Docket No. G-002/M-16-891 (16-891 Docket), the Company requested approval of its 2016 true-up report and 2017 GUIC revenue requirements.

In the 16-891 Docket *Order*, the Commission approved Xcel Energy's 2016 true-up report and 2017 GUIC revenue requirements and revised adjustment factors with the following modifications:

- Approved an overall rate of return of 7.02 percent;
- Denied Xcel Energy's proposed Accumulated Deferred Income Tax (ADIT) proration for the forecasted year and determined that the 2017 GUIC Rider must not be effective prior to January 1, 2018;
- Disallowed Quality Assurance/Quality Control related costs as duplicative services;
- Continued to require Xcel Energy to discuss, with other parties, proposed performance metrics and ongoing evaluation of reporting requirements in future GUIC proceedings; and
- Continued to require Xcel Energy to include specific information about each individual project in future GUIC Rider filings that sufficiently, (1) describes what the project is, (2) explains why the project is necessary, (3) discusses what benefits ratepayers will receive from the project, and (4) identifies the agency, regulation, or order that requires the project.

4. 2018 GUIC – the 17-787 Docket

In Docket No. G-002/M-17-787 (17-787 Docket), the Commission approved Xcel Energy's 2017 true-up report and 2018 GUIC revenue requirements and revised adjustment factors with the following modifications:

- Authorized recovery of 2018 revenue requirements over the 12 months following the effective date of the order;
- Maintained the approved rate of return at 7.02 percent with an ROE of 9.04 percent;
- Required an effective date of January 1, 2019;
- Required Xcel Energy to use the most recent 12 months of actual natural gas sales to calculate final rates;
- Limited the return on Maximum Allowable Operating Pressure (MAOP) validation capital costs to the Company's long-term cost of debt;
- Disallowed recovery of certain low-risk infrastructure replacement work; and
- Disallowed the implementation of a carrying charge to the GUIC tracker account.

5. 2019 GUIC – the 18-692 Docket

In Docket No. G-002/M-18-692 (18-692 Docket), the Commission approved Xcel Energy's 2018 true-up report and 2019 GUIC revenue requirements and revised adjustment factors with the following modifications:

- Authorized recovery of 2019 revenue requirements over the 12 months following the effective date of the order;
- Updated the approved rate of return to 7.00 percent with an ROE of 9.04 percent;
- Required an effective date of March 1, 2020;
- Required Xcel Energy to use the most recent 12 months of actual natural gas sales to calculate final rates;
- Limited the return on Maximum Allowable Operating Pressure validation capital costs to the Company's long-term cost of debt;
- Disallowed recovery of certain low-risk infrastructure replacement work; and
- Disallowed the implementation of a carrying charge to the GUIC tracker account.

C. 2020 GUIC – the 19-664 Docket (this docket)

In the instant *Petition*, submitted on October 25, 2019, Xcel Energy requests Commission approval of the 2019 true-up report and 2020 GUIC revenue requirements and revised adjustment factors. The Minnesota Department of Commerce, Division of Energy Resources (Department) filed comments discussing a number of issues. The issues addressed are:

1. Sales Forecast
2. TIMP – Programmatic Replacement and MAOP Remediation
3. Internal Capitalized Costs
4. Risk Assessment and Performance Metrics

The following sections of these briefing materials discuss in more detail the positions and comments of the parties.

III. Xcel Energy’s Petition

Xcel Energy has six ongoing GUIC projects, three are TIMP-related and three are DIMP-related.⁸ In determining the 2020 revenue requirement Xcel Energy, incorporated a revenue requirement calculation with a return on equity (ROE) of 9.04 percent and an overall rate of return (ROR) of 7.00 percent, pursuant to the Commission’s decision at its October 10, 2019 agenda meeting.⁹

According to Xcel Energy, responsibility for the GUIC rider revenue requirement is allocated to customer classes consistent with how responsibility for the Company’s revenue requirement was apportioned in Xcel Energy’s most recent natural gas rate case, in docket 09-1153.

The proposed 2020 GUIC factors by customer class along with existing factors are shown in Xcel Energy’s petition (shown below).¹⁰

⁸ Xcel Energy’s projects are more fully discussed in Attachment C (TIMP) and Attachment D (DIMP) of the *Petition*.

⁹ ORDER AUTHORIZING RIDER RECOVERY WITH MODIFICATIONS, In the Matter of the Petition of Northern States Power Company, d/b/a Xcel Energy, for Approval of a Gas Utility Infrastructure Cost Rider True-Up Report for 2018, the Forecasted 2019 Revenue Requirements, and Revised Adjustment Factors, Docket No. G-002/M-18-692 (January 9, 2020)

¹⁰ Xcel Energy *Petition* at 33.

**Table 1: Proposed 2020 GUIC Adjustment Factors
(\$ per therm)**

	Current Factors	2019 Factors*	2020 Proposed Factors**
Residential	\$0.029696	\$0.041655	\$0.037138
Commercial Firm	\$0.015878	\$0.021944	\$0.019301
Commercial Demand Billed	\$0.011233	\$0.016221	\$0.014657
Interruptible	\$0.008725	\$0.012977	\$0.011864
Transportation	\$0.001677	\$0.003465	\$0.003425

* Assumes the 2019 revenue requirement is recovered Mar. 1, 2020 through Feb. 28, 2021.
** Assumes the 2020 proposed revenue requirement is recovered Mar. 1, 2021 through Feb. 28, 2022.

With TIMP and DIMP combined, the table below summarizes (as of October 25, 2019) Xcel Energy’s overall projected annual and year-to-date (YTD), GUIC capital expenditures and each year’s projected GUIC revenue requirements, inclusive of deferred costs, through the year 2024:

Table 2: Projected GUIC Capital Expenditures & Revenue Requirements 2015 - 2024 (\$ 000s)			
<u>Year</u>	<u>Capital Expenditure*</u>		<u>Rev. Req.^</u>
	<u>Annual</u>	<u>YTD</u>	
Pre-2015		\$ 21,952	
2015	\$ 29,021	\$ 50,973	\$ 12,503
2016	\$ 31,979	\$ 82,952	\$ 16,147
2017	\$ 20,235	\$ 103,187	\$ 19,959
2018	\$ 45,704	\$ 148,891	\$ 16,606
2019	\$ 41,357	\$ 190,248	\$ 23,705
2020	\$ 51,869	\$ 242,117	\$ 21,285
2021	\$ 48,425	\$ 290,542	\$ 29,461
2022	\$ 51,887	\$ 342,429	
2023	\$ 49,779	\$ 392,208	
2024	\$ 49,779	\$ 441,987	

* Source: *Petition*, page 30, Table 6

^ Source: *Petition*, Attachment N, revenue requirement data for 2022 – 2024 was not provided

The lower revenue requirement in 2020, as compared to 2019, is due to the conclusion of the recovery of certain deferred costs (five-year amortization) and the anticipated completion of the gas and sewer line investigation project in 2019.¹¹

¹¹ Xcel Energy, *Petition*, Attachment K (this docket)

Xcel Energy proposed a customer notice billing message using the same language approved in its prior GUIC docket, which is included on page 35 of its *Petition*. Xcel Energy stated its willingness to work with Department and Commission staff if modifications are suggested.

In *Reply Comments* Xcel Energy revised its revenue requirement downward from \$21.28 million to \$20.67 million to account for the updating of actual 2018 GUIC-related retirements along with an updated estimate of retirements in 2019. Xcel Energy provided the following table in its *Reply Comments*.

Table 3: 2020 GUIC Rider Revenue Requirements Summary (\$ Millions)

2020 Revenue Requirement in Petition	\$21.28
Adjustment of 2019 GUIC-related retirement revenue impact	0.07
Adjustment of Programmatic Replacement and MAOP	<u>(0.68)</u>
Updated 2020 Revenue Requirement	\$20.67

IV. Discussion of Issues

A. Sales Forecast

1. Background

Xcel Energy uses a sales forecast to project natural gas consumption for each customer class for the GUIC. The projected sales are used to determine the proposed 2020 GUIC rate for each customer class, given each class' 2020 revenue requirement. The sales forecast needs to be reasonable since a sales forecast that is too low will cause rates to be too high, and the Company will over-recover its revenue requirement. Conversely, if the sales forecast is too high, rates will be set too low, and Xcel Energy will under-recover its revenue requirement.

In Xcel Energy's 2017 GUIC, the Commission ordered two revisions to Xcel Energy's sales forecast. First, was a monthly historical sales adjustment that effectively "smoothed" the Company's sales data; second, was an adjustment for demand-side management (DSM) energy savings.¹²

The Commission approves a revised sales forecast based on the Company's regression model results before monthly sales and demand-side management (DSM) adjustments as set forth by the Company in Attachment F of its reply comments for the 2017 GUIC rider.

¹² *In the Matter of the Petition of Northern States Power Company, d/b/a Xcel Energy, for Approval of a Gas Utility Infrastructure Cost Rider True-up Report for 2016, Forecasted 2017 Revenue Requirement, and Revised Adjustment Factors*, Docket No. G-002/M-16-891, Order Approving Rider with Modifications (February 8, 2018) at OP 8.

In the 17-787 Docket, the Department noted a mismatch of forecast data in the GUIC and historical data reported in Xcel Energy's *Gas Jurisdictional Annual Report* (GJAR). The Department noted that the Company's GUIC sales forecast was much lower than the actual sales reported in Xcel Energy's GJAR. As noted above, in both the 17-787 Docket and the 18-692 Docket, the Commission required Xcel Energy to use the most recent 12 months of actual natural gas sales to calculate final rates.

2. Department Comments

The Department noted that Xcel Energy calculated the final rate factors by dividing each customer class's proposed revenue requirement by its projected gas consumption.¹³ The Department argued that this approach was similar to what the Company had proposed in its GUIC Rider petitions for 2018 and 2019 and noted in both years the Department instead recommended that the Company base its GUIC rate factors on the most recent 12 months of actual sales data. In both years, the Commission supported the Department's recommendation.

At the time of Xcel Energy's filing of the instant *Petition*, the Commission's 2019 GUIC Order had not yet been released. However, the Commission's 2018 GUIC Rider Order was available, and required the Company to instead use the most recent actual sales data. The Department recommended the Company update its compliance matrix with the most recent rate factor calculation methodology and provide updated sales figures and rate factors in reply comments.

3. Xcel Energy Reply Comments

In *Reply Comments*, Xcel Energy stated that it believes the use of its sales forecast is reasonable for setting rates—especially in initial rider filings to match expected sales with the test year rider costs—however, for purposes of this filing, this year, the Company agreed to use actual sales for calculating GUIC Rider rate factors. Xcel Energy reiterated its belief that the use of forecasted sales is the most appropriate method for setting rate factors, and that it anticipated using forecasted sales for ratemaking purposes in the future.

4. Staff Analysis

This issue is resolved for the instant proceeding however, staff is concerned that this has been a recurring issue over the past several GUIC Rider petitions and, according to Xcel Energy, will continue to be an issue in future filings. Staff notes that since 2017 the Commission has required Xcel Energy to use its most recent actual sales data and it is an inefficient use of limited resources to continue to debate this issue in future filings.

The Commission may wish to discuss this topic at the April 8th agenda meeting and consider requiring Xcel Energy to use its most recent actual sales data instead of forecasted date in its next or in all future GUIC Rider petitions.

¹³ Xcel Energy *Petition* at Attachment Q.

B. TIMP – Programmatic Replacement and MAOP Remediation

1. Background

This project focuses on remediating Xcel Energy's system data gap findings to ensure that the pipeline's maximum allowable operating pressure (MAOP) can be supported by records that are traceable, verifiable, and complete. According to federal regulations, a pipeline operator must not operate a pipeline that exceeds authorized MAOP.¹⁴ The requirements to validate pressure for plastic and steel pipe were first enacted on August 19, 1970. On January 3, 2012, President Obama signed the Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011, which requires the Pipeline and Hazardous Materials Safety Administration (PHMSA) to direct each owner or operator of a gas transmission pipeline and associated facilities to provide verification that their records accurately reflect the MAOP of their pipelines. Xcel Energy stated that the federal PHMSA requires pipeline operators to maintain and file records that are traceable, verifiable, and complete to establish compliance with MAOP requirements. The Company explained that it is working to resolve gaps in its records through, among other steps, maintenance and testing, and requested cost recovery related to such work.

Xcel Energy began this project in 2017 and it is designed to meet the requirement to have traceable, verifiable, and complete records of a pipeline's MAOP. This project targets necessary repairs or replacement efforts on transmission pipelines that have been assessed for asset health and condition in prior years. Through this project, Xcel Energy is gathering and validating existing MAOP records for the Company's transmission pipelines and remediating any gaps in such records. Remediating gaps includes addressing missing records associated with pipe diameter, wall thickness, grade, seam type, manufacturer, component ratings and historic pressure test data. Other record gaps could include missing information regarding design, fabrication, construction, maintenance, and testing. To validate MAOP, Xcel Energy utilizes pressure tests to establish baseline operating pressures and will replace assets, when applicable, due to lack of historical MAOP documentation needed to meet criteria established by PHMSA.

This issue was previously addressed by the Commission in Xcel Energy's most recent GUIC petition however, due to the extended comment period and regulatory review a Commission order was not issued prior to the filing of the instant *Petition*.¹⁵ In an order dated January 9, 2020, the Commission denied the Company's request to earn a return on MAOP remediation capital costs that includes a return on equity capital and instead limited the return *on* MAOP validation capital costs to the Company's cost of long-term debt.¹⁶

¹⁴ 49 C.F.R. § 192.619.

¹⁵ Docket No. G-002/M-18-692.

¹⁶ *In the Matter of the Petition of Northern States Power Company, d/b/a Xcel Energy, for Approval of a Gas Utility Infrastructure Cost Rider True-up Report for 2018, Forecasted 2019 Revenue Requirement and Revised Adjustment Factors*, Docket No. G-002/M-18-692, Order Approving Rider with Modifications at 9, 10, 11 (January 9, 2020).

2. Department Comments

The Department noted in its Comments that in Xcel Energy's two most recent GUIC rider petitions (Docket Nos. G-002/M-17-787 and M-18-692), the Commission limited the return on this TAMP project to the Company's weighted cost of debt. The Department's analysis concluded and recommended the same action in this petition.

The Department concluded that inadequate data records is concerning, especially given that data records were and continue to be within the control and responsibility of Xcel Energy. The Department noted that having substantiated, objective MAOP records is fundamental to safe pipeline operations, protecting not only the liability of the utility and its operators, but the safety of those located near the pipeline infrastructure. The Department noted that 49 CFR § 192.517 and 49 CFR § 192.603, which have been in effect since 1970, require that all records regarding MAOP determination must be kept for the useful life of the pipeline.¹⁷

The Department concluded that Xcel Energy should not be afforded the opportunity to earn a profit for doing less than the 1970 law required; to do otherwise would not be in the public interest. Therefore, the Department recommended that the Commission limit the "return on" any approved recovery of MAOP remediation capital costs to no more than the Company's weighted debt cost rate over the life of these capital expenditures. The Department argued that the recommendation is reasonable because it allows Xcel Energy to recover the expenditures made to comply with MAOP substantiation requirements; although ratepayers will still restore to the Company the cost outlays made to rectify data gaps, this action will not enrich Xcel Energy for not meeting its responsibility to retain and keep system records in order.

3. Xcel Energy Reply Comments

In its Reply Comments, Xcel Energy stated that it disagreed with the Department's recommendation but since the Commission has previously ruled that the return on this work should be limited it accepts the Department's recommendation.

4. Staff Analysis

PHMSA Advisory Bulletin ADB-2012-06 requires utilities to verify MAOP records. Specifically, the records must be traceable, verifiable, and complete. ADB-2012-06 specifically defines those terms, as follows:¹⁸

Traceable records are those which can be clearly linked to original information about a pipeline segment or facility. Traceable records might include pipe mill records, purchase requisition, or as built documentation indicating minimum pipe yield strength, seam type, wall thickness and diameter. Careful attention should be given to records transcribed from original documents as they may contain

¹⁷ Department Comments at Attachment B, p. 3 (MAOP 192.619 letter from PHMSA).

¹⁸ ADB-2012-06, 77 FR 26823

errors. Information from a transcribed document, in many cases, should be verified with complementary or supporting documents.

Verifiable records are those in which information is confirmed by other complementary, but separate, documentation. Verifiable records might include contract specifications for a pressure test of a line segment complemented by pressure charts or field logs. Another example might include a purchase order to a pipe mill with pipe specifications verified by a metallurgical test of a coupon pulled from the same pipe segment. In general, the only acceptable use of an affidavit would be as a complementary document, prepared and signed at the time of the test or inspection by an individual who would have reason to be familiar with the test or inspection.

Complete records are those in which the record is finalized as evidenced by a signature, date or other appropriate marking. For example, a complete pressure testing record should identify a specific segment of pipe, who conducted the test, the duration of the test, the test medium, temperatures, accurate pressure readings, and elevation information as applicable. An incomplete record might reflect that the pressure test was initiated, failed and restarted without conclusive indication of a successful test. A record that cannot be specifically linked to an individual pipe segment is not a complete record for that segment. Incomplete or partial records are not an adequate basis for establishing MAOP or MOP. If records are unknown or unknowable, a more conservative approach is indicated.

The Department argued that Xcel Energy has an obligation to maintain MAOP validation records for pipeline installed subsequent to 1970. Therefore, the Department believes PHMSA Advisory Bulletin ADB-2012-06 should not be considered as a new reporting requirement for information the Company otherwise should possess. Xcel Energy, however, believes that the specific traceable, verifiable, and complete requirements of PHMSA Advisory Bulletin ADB-2012-06 are more stringent than the record keeping requirements of 49 CFR § 192.619, and therefore, the costs associated with the more stringent requirements or a governmental or regulatory body should be recoverable through the GUIC rider.

As noted above, the Commission considered this issue in the 17-787 & 18-692 dockets and determined that Xcel Energy's request for recovery of MAOP remediation capital costs that include a return on equity capital should be denied and instead limited the return *on* MAOP validation capital costs to the Company's cost of long-term debt.¹⁹

¹⁹ *In the Matter of the Petition of Northern States Power Company, d/b/a Xcel Energy, for Approval of a Gas Utility Infrastructure Cost Rider True-up Report for 2017, Forecasted 2018 Revenue Requirement and Revised Adjustment Factors*, Docket No. G-002/M-17-787, Order Approving Rider with Modifications at 8, 12 (August 12, 2019).

In the Matter of the Petition of Northern States Power Company, d/b/a Xcel Energy, for Approval of a Gas Utility Infrastructure Cost Rider True-up Report for 2018, Forecasted 2019 Revenue Requirement and Revised Adjustment Factors, Docket No. G-002/M-18-692, Order Approving Rider with Modifications at 10, 11 (January 9, 2020).

C. Internal Capitalized Costs

1. Background

This issue was previously addressed by the Commission in Xcel Energy's most recent GUIC petition. In an order dated August 12, 2019, the Commission disallowed the recovery of Overhead, Other, and Transportation costs totaling approximately \$6.3 million in the GUIC rider.²⁰

2. Department Comments

The Commission has generally not allowed recovery of internal capitalized costs outside of rate cases to avoid double-recovery of costs. This includes Xcel Gas's GUIC Rider; the Commission denied recovery of certain internal capitalized costs in both the 2018 and 2019 GUIC Riders.

The Department discussed this issue at length in its Comments in both of the 2018 and 2019 dockets,²¹ noting that a primary concern is that a utility could expense its employee internal labor in a rate case, then later capitalize that same labor in a rider, thus charging ratepayers for those same internal labor costs twice. In base rates, the utility would earn a return of this labor as an operating expenses; in the rider, the utility would earn both a return of this labor as a depreciation expense and a return on this rider through a return on rate base. The Department further cited the Commission's reasoning and conclusions regarding internal capitalized costs from a prior Order, including the following quotes:

And the Department is also correct that this docket, like any rider update docket, is not an appropriate vehicle for making the exacting factual distinctions necessary to identify any internal labor costs not already included in base rates.

Nor does this, or any other rider proceeding, provide the comprehensive evidentiary development required to permit the Commission to make the factual determinations required to classify individual labor-cost accounts as subject to capitalization or expensing.²²

The Department continues to conclude that it is inappropriate for Xcel Energy to recover internal capitalized costs outside of a rate case. Consistent with the Commission's actions and the Department's recommendations from the 2018 and 2019 GUIC Riders, the Department

²⁰ *In the Matter of the Petition of Northern States Power Company, d/b/a Xcel Energy, for Approval of a Gas Utility Infrastructure Cost Rider True-up Report for 2017, Forecasted 2018 Revenue Requirement and Revised Adjustment Factors*, Docket No. G-002/M-17-787, Order Approving Rider with Modifications at 10, 12 (August 12, 2019).

²¹ Department's March 4, 2019 Comments in Docket No. G-002/M-18-692 at 24-28, and Department's July 3, 2018 Reply Comments in Docket No. G-002/M-17-787 at 22-26.

²² *In the Matter of Otter Tail Power Company's Request for Approval of a Transmission Cost Recovery Rider Including the Proposed Transmission Factor for the Recovery Period from May 2, 2013 to April 30, 2014*, Docket No. E-017/M-13-103 at 6 (March 10, 2014).

recommends that the Commission deny recovery of Overheads, Transportation, and Other internal capitalized costs.

3. Xcel Energy Reply Comments

Xcel Energy disagreed with the Department's recommendation and argued that these costs are reasonable and properly recoverable through the GUIC Rider mechanism and that the costs are properly assigned to the GUIC projects based on its overhead pool allocation process.

Xcel Energy argued that the amount of overhead costs in the instant Petition are only a portion of the overhead costs applied to current non-GUIC work, and any overheads applied to GUIC projects are incremental to those costs being recovered in base rates.²³

Xcel Energy noted that actual overhead costs have grown steadily since its last rate case, from about \$8 million to \$17 million in 2018. Xcel Energy noted that of the 2018 amount, only \$8 million was applied to its GUIC Rider projects.

4. Staff Analysis

Effectively, Xcel Energy is seeking approval of an allocation methodology to recover the portion of Overhead, Other, and Transportation costs it attributes to GUIC projects.

Overhead costs are assigned to projects based on an overhead pool allocation process and are not reflected as normal operations and maintenance costs.²⁴

Stated differently, Xcel Energy has an overall budget for overheads, other, and transportation that is allocated between GUIC and non-GUIC projects. The Company argues that the recovery amount set in base rates covers only a portion of the non-GUIC projects and, therefore, any amounts Xcel Energy allocates to GUIC work should be considered incremental.

The GUIC Statute defines GUIC costs as being "costs incurred in gas utility *projects*" [Staff emphasis]. The applicable Merriam-Webster definition of the word "project" defines a project as being "a planned undertaking." The GUIC Statute does not specifically require or disallow the allocation of overhead, other, and transportation between GUIC and non-GUIC projects, however, the GUIC Statute only specifically provides for an avenue of expedited recovery for incremental expenses as they relate to specific projects as defined in the Statute as opposed to recovering generalized increases in overhead expenses.

The fact that non-GUIC allocated overhead, other, and transportation costs exceed Xcel Energy's base rate recovery amount is an expected result given the time that has elapsed since Xcel Energy's last rate case. As a simple example, in 2010 the minimum wage in Minnesota was \$7.25/hr. At the time the instant *Petition* was filed, that minimum wage was \$9.86/hr. Utility costs generally rise over time due to the impacts of inflation; Xcel Energy recovering the

²³ Xcel Energy *Petition* at 27-28.

²⁴ Xcel Energy *Petition* at 27.

overhead, other, and transportation expenses based on a 2010 test year and falling short of the expense it incurs today is not surprising. However, the remedy for utilities to revisit and adjust base rates is typically a general rate case. Allocating additional recovery for certain, select costs already represented in base rates simply because the Company is not recovering its current expenses based on a rate case that was initiated over ten years ago could have the effect of continuing to keep Xcel Energy out of a rate case where expenses, such as overhead, other, and transportation, are more-heavily and holistically scrutinized.

Also, as noted above, the Commission previously denied the recovery of Overhead, Other, and Transportation costs in its August 12, 2019, Order in the 17-787 Docket and its January 9, 2020 Order in the 18-692 Docket.²⁵

²⁵ In Xcel Energy's 2019 GUIC docket, staff had a footnote containing a series of Orders where the Commission had disallowed recovery of internal capitalized costs outside of a rate case. The footnote is replicated below for ease of reference:

- In the Matter of Otter Tail Power Company's Request for Approval of its 2010 Renewable Resource Cost Recovery Adjustment Factor, Docket No. E-017/M-09-1484, in its Order dated August 27, 2010, the Commission denied Otter Tail Power Company's request to include capitalized labor and internal costs, subject to future true-up if the Commission determined in Otter Tail's then-pending rate case, Docket No. E-017/GR-10-239, that the amount should be included.
- In the Matter of Xcel Energy's Petition for Approval of Two Proposed Energy Innovation Corridor Projects in the Central Corridor Utility Zone and Deferred Accounting Treatment for Costs Incurred After January 1, 2010, Docket No. E-002/M-09-1488, the Commission decided not to determine cost recovery in the rider, sending those issues to Xcel Energy's then-pending rate case, Docket, No. E-002/GR-10-971.
- In the Matter of Minnesota Power's Petition for Approval of its Transmission Cost Recovery Rider, Docket No. E-015/M-10-799, the Commission's May 11, 2011 Order required Minnesota Power to exclude internal costs from the rider.
- In the Matter of Minnesota Power's Petition for Approval of its 2011 Transmission Cost Recovery Rider Factor, Docket No. E-015/M-11-695, the Commission's May 11, 2011 Order required Minnesota Power to exclude internal costs from the rider. The Commission's subsequent November 12, 2013 Order required Minnesota Power to "continue to exclude internal capitalized costs" from riders.
- In the Matter of Xcel Energy's Petition for Approval of 2012 Transmission Cost Recovery (TCR), Project Eligibility, TCR Rate Factors, and 2011 True-up, Docket No. E-002/M-12-50, the Commission's February 7, 2014 Order required Xcel Energy to removed capitalized costs from the rider.
- In the Matter of Otter Tail Power Company's Request for Approval of a Transmission Cost Recovery Rider Including the Proposed Transmission Factor for the Recovery Period from May 2, 2013 to April 30, 2014, Docket No. E-017/M-13-103, the Commission's March 10, 2014 Order required Otter Tail Power to exclude internal costs.

D. Risk Assessment and Performance Metrics

1. Background

The Commission uses risk assessment and performance metrics tools to help determine the reasonableness of GUIC investments. Risk assessment is prospective, so this tool can be used to help the Commission evaluate specific projects that are expected to be undertaken in the upcoming year. Performance metrics are retrospective, so this tool can help the Commission determine how reasonable Xcel Energy's cost estimates were after projects are completed. In the 15-808 Docket, the Commission required Xcel Energy to develop metrics and reporting requirements to analyze the appropriateness of the Company's GUIC expenditures.²⁶

2. Department Comments

The Department reviewed the risk assessment tool for the projected 2020 projects and concluded that the Company's risk assessment process appeared to be reasonable.²⁷

Regarding Xcel Energy's performance metrics, the Department noted that the Company did not provide performance metrics for evaluating completed projects, as it has in prior years, but instead included a discussion of performance metrics.²⁸ The Department believes this is likely an acceptable alternative, since the Commission has not approved specific performance metrics as of the time of these Comments, but instead has only directed parties to work towards consensus.

The Department noted that it provided an in-depth analysis of Xcel Energy's proposed performance metrics in its comments concerning the 2018 GUIC Rider.²⁹ In those comments, the Department said the Company's performance metrics did not adequately evaluate each of the GUIC programs. The Department recommended that the Commission require, at minimum, at least one cost performance metric and one effectiveness performance metric for each TIMP and DIMP program in the relevant year. The Department also noted that metrics should be specific enough to give the Commission meaningful information about the specific program being evaluated.

The Department stated it continues to have concerns that the currently proposed metrics do not adequately provide meaningful cost and effectiveness information for each TIMP and DIMP

²⁶ *In the Matter of the Petition of Northern States Power Company, d/b/a Xcel Energy, for Approval of a Gas Utility Infrastructure Cost Rider (GUIC) True-up Report for 2015, Forecasted 2016 GUIC Revenue Requirement, and Revised GUIC Adjustment Factors*, Docket No. G-002/M-15-808, Order Requiring Updated Report, Approving Rider Recovery, and Requiring Metrics to Evaluate GUIC Expenditures (August 18, 2016) at OP 2.

²⁷ Xcel Energy's *Petition* at Attachments C2, D2(a), and D2(b).

²⁸ Xcel Energy's *Petition* at 36-38.

²⁹ Department's March 4, 2019 *Comments* in 18-692 Docket at 28-48.

program. However, the Department noted that Xcel Energy responded to the Department's critiques concerning performance metrics in both the 2018 and 2019 GUIC Rider proceedings. In addition, Xcel Energy met with the Department, Commission staff, the Minnesota Office of Pipeline Safety, and the Office of Attorney General on multiple occasions to fulfill the Commission's directive to work with stakeholders. As a result of these meetings, the Department was able to provide additional feedback, some of which Xcel Energy incorporated into the previous year's performance metrics. In the instant *Petition*, Xcel Energy stated that the Company intends to request informal comments from parties and again schedule a meeting with stakeholders. Given Xcel Energy's ongoing efforts to address the Department's concerns, the Department is reassured that the Company will continue to refine performance metrics reporting as it is able to. Therefore, the Department is no longer opposed to the metrics currently proposed by the Company.

3. Xcel Energy Reply Comments

Xcel Energy noted that the Company has collaborated with stakeholders including the Department over the last few years on this initiative. Xcel Energy stated that it appreciated the Department's comments and agree that the parties have developed a workable set of proposed metrics consistent with the Commission's Order, Xcel Energy also commits to continue to refine these as appropriate over time.³⁰

Table 4 below shows the currently recommended performance metrics. Xcel Energy noted that, at the request of the Department, the Company included a cost and effectiveness metric for the Sewer and Gas Line Conflict Remediation project that was not included in the proposal in the initial *Petition* in this docket.

Table 4: Recommended Performance Metrics

Program	Project	Cost Performance Metric	Effectiveness Performance Metric
TIMP	Transmission Pipeline Integrity Assessments	Estimated versus actual costs per project	Anomalies repaired by type
	ASVs and RCVs	Estimated versus actual costs per project	Reduction in response time per project
	Programmatic Replacement and MAOP Remediation	Estimated versus actual costs per project	Percentage of high/medium risk projects system-wide
DIMP	Poor Performing Main Replacement	Poor performing main replacement unit cost (per foot)	Leak rate by vintage
	Poor Performing Service Replacement	Poor performing main replacement unit cost (per service)	Leak rate by vintage
	Distribution Pipeline Integrity Assessment	Estimated versus actual cost per project	Anomalies repaired by type

³⁰ See ORDER AUTHORIZING RIDER RECOVERY WITH MODIFICATIONS, Ordering Paragraph 18, Docket No. G-002/M-18-692 (January 9, 2020).

Program	Project	Cost Performance Metric	Effectiveness Performance Metric
	Sewer and Gas Line Conflict Remediation	Inspection Unit Cost	Percentage of Total Premises Inspected

4. Staff Analysis

Commission staff agrees additional discussion on the proposed performance metrics is warranted and agrees with Xcel Energy's recommendation for additional stakeholder meetings. In addition, staff note that Xcel Energy provided updated performance metrics in its 2021 GUIC *Petition* (Docket No. G-002/M-20-799) which is currently under review.

V. Decision Alternatives

Xcel Energy's 2020 Gas Utility Infrastructure Cost (GUIC) Rider revenue requirement and adjustment factors

1. Approve Xcel Energy's proposed 2020 GUIC Rider revenue requirement and adjustment factors as filed except as modified herein.

Xcel Energy's GUIC Rider 2019 True-up Report?

2. Accept Xcel Energy's GUIC Rider True-up Report.

Sales Forecast

3. Require Xcel Energy to use the most recent 12 months of actual natural gas sales to allocate the costs across jurisdictions and classes. [Department, Xcel Energy]

TIMP – Programmatic Replacement and MAOP Remediation

4. Determine that the “return on” the capital costs incurred to remediate the system's MAOP data gaps, shall be limited to Xcel Energy's weighted long-term cost of debt over the life of these capital expenditures. [Department, Xcel Energy]

Internalized Capital Costs

5. Allow Xcel Energy cost recovery of Overhead, Other, and Transportation, in the GUIC Rider. [Xcel Energy]

or,

6. Deny the Company's proposed recovery of GUIC internal capital costs for Overheads, Other, and Transportation, to the extent these costs are not removed elsewhere. [Department]

Risk Assessment and Performance Metrics

7. Find that Xcel Energy's risk assessment tool appears to be reasonable. [Department, Xcel Energy]

and,
8. Direct the Department and Xcel Energy to continue discussion regarding reaching a consensus on the establishment of performance metrics in future GUIC petitions. [Department, Xcel Energy]

Compliance Filings

9. Require Xcel Energy to submit a compliance filing within ten days of the date of this order showing the final rate adjustment factors, and all related tariff changes.

and,
10. Require Xcel Energy to include electronic files of its revenue requirements schedules, with formulae intact, in its final compliance filing. [Department]