

September 16, 2019

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

RE: **Response Comments of the Minnesota Department of Commerce, Division of Energy Resources**  
Docket No. E002/M-17-828

Dear Mr. Wolf:

Attached are the Response Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matter:

Xcel's Compliance Filing for the Nuclear Decommissioning Accrual.

The Department recommends that the Commission **approve** Xcel's updated accruals, **with modifications**. The Department is available to answer any questions that the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ STEVE RAKOW  
Analyst Coordinator

/s/ NANCY CAMPBELL  
Analyst Coordinator

/s/ CRAIG ADDONIZIO  
Financial Analyst

SR/NC/CA/ar



## Before the Minnesota Public Utilities Commission

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### Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E002/M-17-828

#### I. INTRODUCTION

On July 15, 2019, Northern States Power Company, doing business as Xcel Energy (Xcel or the Company) filed its Compliance Filing for Nuclear Decommissioning Accrual (Compliance Filing) with the Minnesota Public Utilities Commission (Commission) in this Docket. In its Compliance Filing, the Company addressed the possible impacts on 2020 nuclear decommissioning accrual of: 1) the Department of Energy (DOE) continuing refunds for dry cask storage during the decommissioning process; 2) the use of SAFSTOR decommissioning method; and 3) the possible use of third-party contractors for nuclear decommissioning. In addition, Xcel updated its assumptions regarding the rate of return on investments in its Nuclear Decommissioning Trust fund (NDT), which also impacts the annual decommissioning accrual. The Company also updated its end-of-life (EOL) nuclear fuel accrual to reflect the passage of time. Ultimately, the Company proposed an annual nuclear decommissioning accrual of \$22.8 million and an annual EOL nuclear fuel accrual of \$2.8 million, both beginning January 1, 2020.

On July 22, 2019, the Commission issued a Notice of Comment Period (Notice) on Xcel's Compliance Filing.

On August 19, 2019, the Minnesota Department of Commerce, (Department) filed Comments on Xcel's Compliance Filing recommending that the Commission approve an annual decommissioning accrual of \$27.4 million beginning January 1, 2020, which was calculated assuming that Xcel will recover 75 percent of its dry fuel storage costs from the DOE. In its Comments, the Department also recommended that the Commission find Xcel's NDT financial inputs (i.e. its assumed returns on investments) to be reasonable at this time, but also recommended that the Commission require Xcel to provide additional information about the information and processes it uses to evaluate its investment strategies and investment managers. Lastly, in its Comments, the Department requested that Xcel provide additional explanation of the ratemaking mechanics of its EOL nuclear fuel accrual.

On August 29, 2019 Xcel filed Reply Comments in which it addressed the Department's recommended annual decommissioning accrual, the Department's request for additional information regarding Xcel's management of its Nuclear Decommissioning Trust (NDT), and the Department's questions regarding the EOL nuclear fuel accrual.

## II. DEPARTMENT ANALYSIS

### A. ANNUAL DECOMMISSIONING ACCRUAL

As noted above, in its Comments, the Department recommended that the Commission approve an annual decommissioning accrual of \$27.4 million beginning January 1, 2020, which was calculated assuming that Xcel will recover 75 percent of its dry fuel storage costs from the DOE. In its Reply Comments, Xcel stated that it agrees that the 75 percent scenario is a reasonable, conservative option and does not object to using this approach. The Department appreciates the Company's response.

### B. ADDITIONAL INFORMATION REGARDING XCEL'S NDT MANAGEMENT

The Department recommended that the Commission require Xcel to provide additional information related to the management of the funds in the NDT by January 10, 2020, and provided a list of topics for the Company to address. In its Reply Comments, the Company stated that it has no issues with providing the requested information.

Again, the Department appreciates the Company's response, and willingness to provide the requested information.

### C. EOL NUCLEAR FUEL ACCRUAL

In its Comments, the Department noted that Xcel calculated its annual EOL nuclear fuel accrual using the rate of return authorized in its 2012 rate case (Docket No. E002/GR-12-961), and recommended that the Company recalculate its accrual using the capital structure and capital costs estimates approved in the Company's most recent rate case (Docket No. E002/GR-15-826), including a 9.06 percent return on equity.

Xcel provided an updated calculation of its EOL nuclear fuel accrual reflecting the appropriate cost of capital inputs in Schedule B.4 of its Reply Comments. The updated accrual is \$2,856,756 on a total company basis, and a Minnesota Retail jurisdictionalized amount of \$2,087,026. The Department reviewed Xcel's calculation and concludes that it is correct and reasonable.

The Department also noted that the sinking fund formula Xcel uses to calculate its annual EOL nuclear fuel accrual assumes that accruals are deposited in an interest-bearing account, and that the interest compounds over time. Further, the formula is intended to produce a fixed annual accrual that, when combined with interest earned, will total the targeted amount to recover at the end of the nuclear facilities' lives. However, in reviewing past accruals and total amounts recovered from ratepayers, the Department noted that no interest was being credited to ratepayers, and that the annual accruals increase each year. Thus, the Department requested that Xcel clarify the mechanics of its EOL nuclear fuel accrual calculations and explain whether ratepayers were being credited with interest earned on collected accruals.

In its Reply Comments, Xcel explained that accumulated accruals are treated as an offset to rate base in the Company's general rate case filings. Thus, rather than allowing interest to accrue and compound on accumulated accruals, interest equal to the Company allowed rate of return is credited back to ratepayers each year. The Company also explained that the rate impact of the offset to rate base (a credit to ratepayers) increases each year such that it exactly offsets the increase in the accrual each year (a charge to ratepayers). The net result is that the revenue requirement associated with the EOL nuclear fuel accruals is level over time.

The Department concludes that Xcel's explanation of the mechanics of its EOL nuclear fuel accruals is reasonable, and recommends that the Commission approve the updated EOL nuclear fuel accrual from Schedule B.4 of Xcel's Reply Comments. However, due in part to time constraints, the Department was unable to confirm that the Company provided the offset to rate base for the EOL nuclear fuel in the Company's most recent general rate case filing. As a result, the Department recommends that the Commission require Xcel address this concern in testimony in its upcoming rate case.

### **III. DEPARTMENT CONCLUSIONS AND RECOMMENDATIONS**

Below the Department provides updated responses to the questions listed in the Commission's Notice, which include the Department's recommendations. The Department notes that its responses to questions, 1, 2, 3, and 6 are identical to those included in its Comments, and the responses to questions 4 and 5 have been updated to reflect the Department's analysis of the information Xcel provided in Reply Comments related to its EOL nuclear fuel accrual.

#### **Q1. Does Xcel's July 15, 2019 filing comply with the Commission's January 7, 2019 Order?**

Yes; Xcel's 2019 Compliance addressed possible implications of: 1) DOE continuing refunds for dry cask storage during the decommissioning process; 2) the use of SAFSTOR decommissioning method; and 3) the possible use of third-party contractors for nuclear decommissioning; on the 2020 nuclear decommissioning accrual. Xcel also updated its 2020 End of Life Fuel accrual to reflect the passage of time.

#### **Q2. Are Xcel's updated decommissioning methodology assumptions reasonable?**

Generally, yes; however, the Department recommends basing the accrual on 75% of Xcel's estimated DOE reimbursements, which results in a \$27.4 nuclear decommissioning accrual for 2020, rather than Xcel's proposed \$22.8 million nuclear decommissioning accrual for 2020. Regarding Xcel's proposed alternative, the Department does not recommend that the accrual be based on an assumption that Monticello will be extended, unless and until Xcel receives regulatory approval. As a result, Xcel's alternative proposal to extend the \$14 million decommissioning accrual is not appropriate.

The Department agrees with Xcel that no methodology changes in the nuclear decommissioning accrual regarding SAFSTOR alternative or use of third-party decommissioning firms should be made at this time. Any such changes should be addressed in a future Xcel nuclear decommissioning triennial filing.

**Q3. Are Xcel's updated Nuclear Decommissioning Trust (NDT's) financial inputs reasonable?**

The Department recommends that the Commission find Xcel's NDT financial inputs to be reasonable at this time. However, the Department also recommends that the Commission require Xcel to provide the following information by January 10, 2020, and work with the Department to explain how these processes work:

- Fully describe exactly what information and analysis Goldman Sachs provides and how the NDT Committee evaluates that information within the framework of its fund strategy to make allocation decisions to optimize the NDT's risk/return profile.
- Fully describe how Xcel's NDT Committee evaluates changes in expected long-term returns and volatility in particular asset classes in its allocation decisions.
- Fully describe how the Company:
  - decides whether to pursue an active or passive strategy within that asset class,
  - selects one or more investment managers to manage the NDT's investments in U.S. large capitalization equities,
  - monitors the performance of the managers it has selected,
  - determines whether to retain or replace those managers, and
  - manages its capital gains tax liability across its entire portfolio to minimize its capital gains tax liability, and
  - ensures that ratepayers fully benefit from Xcel's minimization of capital gains.
- Fully explain how these decisions impact expenses associated with manager turnover and asset turnover, as well as tax expense.

This information will help the Department work with Xcel to gain a better understanding of the Company's asset allocation decisions, which are the largest driver of the expected portfolio return assumptions, as well as the methods used to calculate the expected returns by asset class reflected in the assumptions.

**Q4. Is the updated end of life (EOL) nuclear fuel accrual reasonable?**

Yes, the updated EOL nuclear fuel accrual, as provided in Schedule B.4 of Xcel's Reply Comments is reasonable, and the Department recommends that the Commission approve it. However, the Department also recommends that the Commission require Xcel to make clear in testimony in its next rate case that the accumulated EOL nuclear fuel accruals balance is included as an offset to rate base.

**Q5. Should the Commission change the 2019 annual decommissioning and 2019 EOL nuclear fuel accruals?**

No. The Department recommends that the \$27.4 million nuclear decommissioning accrual and the \$2,087,026 EOL nuclear fuel accrual be approved starting in 2020.

**Q6. Are there other issues or concerns related to this matter?**

The Department is not aware of any other issues or concerns related to the nuclear decommissioning and EOL nuclear fuel accruals at this time.

/ar

**CERTIFICATE OF SERVICE**

I, Linda Chavez, hereby certify that I have this day served copies of the following document on the attached list of persons by electronic filing, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**MINNESOTA DEPARTMENT OF COMMERCE – RESPONSE COMMENTS**

Docket Nos. **E002/M-17-828**

Dated this **16th** day of **September, 2019**.

/s/Linda Chavez

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