PUBLIC

STATE OF MINNESOTA
BEFORE THE PUBLIC UTILITIES COMMISSION

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In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota

DOCKET NO. E-002/GR-13-868

COMMENTS OF THE OFFICE OF THE ATTORNEY GENERAL - RESIDENTIAL UTILITIES AND ANTITRUST DIVISION

The Office of Attorney General, Residential Utilities and Antitrust Division ("OAG") submits these Comments in response to the April 24, 2015 Compliance Filing and Preliminary Schedules of Xcel Energy in the matter referred to above. In its May 7, 2014 letter to the Commission, the OAG expressed concern that Xcel appeared to have included savings from higher-than-expected insurance proceeds related to the Sherco 3 Event in its 2014 Capital True-Up, which results in depriving ratepayers of refund of overcollections. Specifically, the OAG was concerned that, by not directly refunding the Sherco 3 insurance proceeds to ratepayers, Xcel was not fulfilling its agreement to "ensure that no repair costs reimbursed by insurance are recovered from ratepayers."[1]

The OAG has now obtained additional information from Xcel related to its treatment of insurance proceeds from the Sherco 3 Event, which confirms that Xcel is not fulfilling its agreement. Accordingly, the OAG requests that the Commission order Xcel to remove the proceeds of its insurance recovery from the 2014 Capital True-Up calculation and that it credit

[1] *Finding of Fact, Conclusions, and Order*¸ In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota, Dkt.No. E-002/GR-12-961 at 20, 23 (Sept. 3, 2013).

the higher-than-expected insurance proceeds to ratepayers through either a reduction in test-year rate base or a direct refund.

The information recently provided by Xcel to the OAG includes an analysis that purports to compare the revenue requirement impact of the insurance recovery and unrecovered costs that Xcel anticipated in its 2013 rate case, with the revenue requirement impact of the company's actual insurance recovery and unrecovered costs. The company claims that the analysis demonstrates that, even though its insurance recovery was higher than it anticipated in its rate case, this higher-than-expected recovery actually increased the company's revenue requirement. The OAG has multiple concerns with Xcel's flawed analysis and backwards result, which should be rejected by the Commission.

First, Xcel's analysis is entirely misplaced. It was never anticipated that the ratepayer refund agreed to by Xcel would be calculated by comparing the revenue requirement of projected insurance proceeds to the revenue requirement of actual insurance proceeds during the time period of the company's 2013 rate case. When Xcel agreed in its 2012 rate case to provide a full accounting of insurance proceeds to "ensure that no repair costs reimbursed by insurance are recovered from ratepayers," its 2013 rate case had not even been filed, and the 2014 Capital True-Up process that Xcel used to conduct its analysis did not exist.

The Capital True-Up process resulted from an agreement between the company and the Department of Commerce in Xcel's 2013 rate case. While that process called for Xcel to compare actual capital revenue requirements with its test year capital revenue requirements, no similar process was mentioned in Xcel's 2012 rate case or in the four insurance recovery updates that Xcel filed with the Commission during 2014. Rather, the first—and only—mention of Xcel's plan to calculate a ratepayer refund in this manner was the single sentence included in the company's March 31, 2015 insurance report that "[w]e will include [the insurance savings] in our upcoming capital true up in the 2013 Minnesota electric rate case."[2] Since the rest of the company's March 31, 2015 insurance report was nearly identical to the language in its four previous insurance reports, this single-sentence "disclosure" could very well have gone entirely unnoticed. For that reason, the OAG is concerned that Xcel did not communicate its plans openly with the parties, and appears to have hidden its intentions by burying them in a single sentence of a largely boiler-plate compliance filing. Regardless, the OAG does not agree that the Capital True-Up process is the appropriate forum to resolve the Sherco 3 costs. Xcel should not be allowed to renege on the agreement it made in its 2012 rate case by including its Sherco 3 insurance recovery in a Capital True-Up developed in its 2013 rate case for a different purpose.

Second, even if Xcel's analysis was not misplaced—which it is—it is inherently flawed. Xcel's analysis begins by comparing the actual unrecovered amount it spent on Sherco 3 repair costs at the *beginning of 2014*, **[TRADE SECRET BEGINS]** **[TRADE SECRET ENDS]**, against the *final* unrecovered costs it expected in its test year. Even though the insurance payments Xcel received throughout 2014 result in a **[TRADE SECRET BEGINS]** **[TRADE SECRET ENDS]** "actual" outstanding balance by year's end, Xcel's methodology relies on the fiction that its "actual" ratebase in 2014 was **[TRADE SECRET BEGINS]** **[TRADE SECRET ENDS]** than the ratebase included in its test year. But this fiction is entirely dependent on the timing of Xcel's insurance payments. If some of the insurance payments that Xcel received during 2014 had occurred only a year earlier, the "actual" unrecovered amount of Sherco 3 repair costs at the beginning of 2014 would have been reduced. Xcel's attempt to exploit the "favorable" timing of its insurance payments to recover these same amounts from

[2] *See* Final Report, Sherco 3 Insurance Recovery, at 4 (March 31, 2015).

ratepayers should be rejected. And this absurd result further demonstrates why the Capital True-Up and revenue requirement process are inappropriate for resolution of a straight-forward issue: refund of Xcel's overcollection from ratepayers, as already agreed.

For the reasons set forth above, the OAG requests that the Commission order Xcel to remove the proceeds of its Sherco 3 insurance recovery from its 2014 Capital True-Up and that it credit the higher-than-expected insurance proceeds to ratepayers through either a reduction in test-year rate base or a direct refund.

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Respectfully submitted,

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