


## Staff Briefing Papers

Meeting Date	July 26, 2018	Agenda Item 2*
Company	Northern States Power Company d/b/a Xcel Energy (Xcel)	
Docket No.	<b>E-002/PA-17-713</b>	
	In the Matter of the Petition of Northern States Power Company for Approval to Purchase Electric Transmission Facilities from Great River Energy	
Issues	1. Should the Commission approve Xcel Energy's purchase petition?	
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 Relevant Documents	Date
Xcel Energy – Petition Filing	September 29, 2017
Department of Commerce – Comments	November 29, 2017
Overland/Legalectric – Extension of Comment Period Request	November 29, 2017
Xcel Energy – Reply Comments	December 1, 2017
Xcel Energy – Compliance Filing <sup>1</sup>	April 2, 2018

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<sup>1</sup> Compliance filing relates to the Hollydale Route Permit (Docket E-002/TL-11-152) and Hollydale Certificate of Need (Docket E-002, ET-2/CN-12-113).

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## I. Statement of the Issues

- Should the Commission approve Xcel Energy's purchase petition (Petition)?

## II. Introduction

Xcel Energy has petitioned approval to acquire approximately eight miles of electric transmission facilities and the associated real property rights (the Plymouth-Hollydale-Medina 69 kV transmission line) from Great River Energy (GRE). The transaction will allow Xcel to own the infrastructure necessary to address the system deficiencies identified in the underlying Hollydale Certificate of Need<sup>2</sup> and Route Permit<sup>3</sup> proceedings. The Company posited that the transaction is consistent with Minnesota Statute § 216B.50, subd. 1 and is in the public interest.

## III. Relevant Statutes and Commission Rules

### Minnesota Statute § 216B.50, Restrictions on Property Transfer and Merger

This proposed transaction is governed by Minnesota Statute § 216B.50 which states:

No public utility shall sell, acquire, lease, or rent any plant as an operating unit or system in this state for a total consideration in excess of \$100,000, or merge or consolidate with another public utility or transmission company operating in this state, without first being authorized so to do by the commission. Upon the filing of an application for the approval and consent of the commission, the commission shall investigate, with or without public hearing. The commission shall hold a public hearing, upon such notice as the commission may require. If the commission finds that the proposed action is consistent with the public interest, it shall give its consent and approval by order in writing. In reaching its determination, the commission shall take into consideration the reasonable value of the property, plant, or securities to be acquired or disposed of, or merged and consolidated.

### Minnesota Rule 7825.1800, Filing Requirements for Approval to Acquire Property

Additionally, Minnesota Rule 7825.1800, subp. B requires utilities seeking property transfer approvals to provide various detailed information set forth in Minnesota Rule 7825.1400, items A through J.

Minnesota Rule, part 7825.1800 contains the filing requirements for petitions to acquire property, as follows:

- A. Petitions for approval of a merger or of a consolidation shall be accompanied by the following: the petition signed by all parties; all information, for each public utility, as required in parts 7825.1400 and 7825.1500; the detailed reasons of the petitions and each party for entering into the proposed transaction, and all facts

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<sup>2</sup> Docket E-002/TL-11-152.

<sup>3</sup> Docket E-002, ET-2/CN-12-113

- warranting the same; the full terms and conditions of the proposed merger or consolidation.
- B. Petitions for approval of a transfer of property shall be accompanied by the following: all information as required in part 7825.1400, items A to J; the agreed upon purchase price and the terms for payment and other considerations.
  - C. A description of the property involved in the transaction including any franchises, permits, or operative rights, and the original cost of such property, individually or by class, the depreciation and amortization reserves applicable to such property, individually or by class. If the original cost is unknown, an estimate shall be made of such cost. A detailed description of the method and all supporting documents used in such estimate shall be submitted.
  - D. Other pertinent facts or additional information that the Commission may require.

### **Minnesota Rule 7825.1400, Filing Requirements for Capital Structure Approval**

Minnesota Rule, part 7825.1400, items A to J, relates to filing requirements for capital structure approval, however, it also contains requirements for property transfer proposals:

- A. A descriptive title.
- B. A table of contents.
- C. The exact name of the petitioner and address of its principal business office.
- D. Name, address, and telephone number of the person authorized to receive notices and communications with respect to the petition.
- E. A verified statement by a responsible officer of the petitioner attesting to the accuracy and completeness of the enclosed information.
- F. The purpose for which the securities are to be issued.
- G. Copies of resolutions by the directors authorizing the petition for the issue or assumption of liability in respect to which the petition is made; and if approval of stockholders has been obtained, copies of the resolution of the stockholders shall be furnished.
- H. A statement as to whether, at the time of filing of the petition, the petitioner knows of any person who is an "affiliated interest" within the meaning of Minnesota Statutes, section 216B.48, subdivision 1, who has received or is entitled to receive a fee for services in connection with the negotiations or consummation of the issuance of the securities, or for services in securing underwriters, sellers, or purchasers of the securities.
- I. A signed copy of the opinion of counsel in respect to the legality of the issue or assumption of liability.

- J. A balance sheet dated no earlier than six months prior to the date of the petition together with an income statement and statement of changes in financial position covering the 12 months then ended. When the petitions include long-term securities, such statements shall show the effects of the issuance on such balance sheet and income statement.

#### IV. Parties' Comments

##### A. Xcel Energy – Initial Filing

Xcel explained that, over the last six years, it has been working with GRE to address deficiencies of the electric grid in the Plymouth and Medina area. Initially, both Companies proposed to rebuild the Plymouth-Hollydale-Medina 69 kV transmission line to 115 kV capacity; however, during the Certificate of Need and Route Permit proceedings, Plymouth and Medina residents and other stakeholders expressed concerns about that proposal. Xcel and GRE withdrew the Certificate of Need and Route Permit applications. The Commission approved the withdrawal.

After analyzing alternatives and listening to community feedback, Xcel, proposed to re-energize the Plymouth to Hollydale portion of the 69 kV transmission line. The project required local permitting from the City of Plymouth which was approved on March 14, 2017. Xcel began construction on the new Pomerleau Substation in the summer of 2017.

Since the line is currently owned and underutilized by GRE, Xcel and GRE began negotiating the Plymouth-Hollydale-Medina 69 kV line purchase which includes the real property rights associated with the line. On September 25, 2017, Xcel and GRE entered into an Agreement<sup>4</sup> for the purchase of the following:

- 8.1 miles of 69 kV transmission line and the associated accessories attached thereto,
- a conductor, and
- approximately one hundred and three (103) Class 2 poles ranging in height from sixty-five (65) feet to seventy (70) feet. The assets also include the related easements.

The estimated purchase price is \$445,005 which breaks down as follows:

- easements' value of \$378,205, and
- the GRE book value of the assets on the closing date which was \$66,800 at the time of the filing.

Xcel stated that most of GRE's easements were executed in the late 1960s and carry a book value of \$68,095; however, if Xcel were to procure similar easements today, the cost would exceed \$1 million.<sup>5</sup> Therefore, Xcel and GRE (the Companies) valued the easements by estimating a discount of their market value, rather than their book value.

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<sup>4</sup> Attachment A, Petition Filing.

<sup>5</sup> Assuming no eminent domain costs.

Since, after closing, Xcel will have 100% ownership and maintenance responsibility for this 69 kV line, Xcel will be able to provide more reliable service to its Plymouth and Medina customers. Xcel selected this alternative over two others because it minimized impacts and provided the best long-term electric performance of the three alternatives studied.

Xcel also selected this alternative over two others because it relies mainly on existing infrastructure (the assets purchased on this petition) and minimizes new environmental impacts; whereas, the other two alternatives required eight and ten miles of new distribution lines. Additionally, if the Xcel did not purchase the GRE's assets, then it would have to make annual transmission service payments for use of the line.

Xcel Energy believes this proposed acquisition is in the public interest and, given that it is based on the estimated assets' market value, the purchase price is appropriate.

Finally, Xcel requested a variance to Minn. R. 7825.1800, subp. B as it relates to the information required under Minn. R. 7825.1400 items F through I.

## **B. Department of Commerce – Comments**

The Department stated that the property transfer is subject to Minnesota Statute 216B.50 and corresponding Minnesota Rules, parts 7825.1400 and 1800. Based on the conclusions below, the Department considers the transfer to be consistent with the public interest.

- Harmonizing the public's perception of Xcel's ownership of the Hollydale line with the actual ownership of the Hollydale line is consistent with the public interest.
- Without ownership of the Hollydale line, the Company would be required to make significant transmission payments to GRE for the use of the line on an annual basis, with conservative projections of the costs starting at \$1,166,714 in 2020 and increasing to \$2,640,459 by 2022. By owning the Hollydale line and not having to make the annual payments to GRE, ratepayers will save a significant amount of money over the expected lifetime of this engineering solution.<sup>6</sup>
- Typically, existing assets being sold are built into rates and have been partially or totally recovered from the selling utility's ratepayers. If existing assets are purchased and capitalized by another utility at a value higher than Net Book Value (NBV), ratepayers would double-pay for these assets. Easements are permanent assets that are recovered through depreciation or amortization; therefore, the owning utility receives a return on the original cost but does not recover the original cost of the easements from ratepayers. Since Xcel would not depreciate or amortize the easements there is no risk for double-recovery from ratepayers.

Regarding Minnesota Rule, part 7825.1400, items A to J, the Department found that the Company provided information on items A through E and item J. Since information on items F through I was not provided, a variance was requested. The Department pointed out that Minnesota Rule 7829.3200 governs such variance requests and states that the Commission shall grant a variance to its rules when it determines that the following requirements are met:

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<sup>6</sup> Based on discount rates ranging from 2.21% to 9%, the Department determined that the savings' Net Present Value ranges from \$19,686,470 to \$39,794,544.

- A. enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule;
- B. granting the variance would not adversely affect the public interest; and
- C. granting the variance would not conflict with the standards imposed by law.

The Department noted that the items F through I relate to capital structure filings and not relevant to determining whether this petition is in the public interest. Additionally, the Commission has previously granted a variance in similar circumstances;<sup>7</sup> therefore, the Department recommended that the variance be granted.

Finally, the Department noted that, since the assets' NBV changes with the passage of time, the DOC recommended that the Commission require Xcel to file final journal entries and amounts related to the transfer, including narrative explanations describing the basis for the entries within 60 days of the close of the transaction.

### **C. Overland/Legalectric – Extension Request**

Carol Overland/Legalectric expressed concerns that this docket's heading did not indicate the facilities involved and requested that the filing be served to parties in the Hollydale dockets' (PUC dockets 11-152 and 12-113) service lists.

Legalectric expressed concerns that easements come with the ability to upgrade the line, and Xcel Energy has been upgrading its 69 kV lines to 115 kV throughout the state.

A request was also made that the caption in this docket include the word "Hollydale", and, for example, say: "Northern States Power Company d/b/a Xcel Energy Services, Inc.'s (Xcel, or the Company) Petition for Approval of a Purchase of Electric Transmission Facilities known as the Hollydale transmission line from Great River Energy".

Finally, Legalectric asked for a 30-day extension of the comment period.

### **D. Xcel Energy – Reply Comments**

Xcel accepted the Department's recommendation to file final journal entries and amounts related to the transfer, including narrative explanations describing the basis for the entries, within 60 days of the close of the transaction.

Xcel clarified that Ms. Overland's assertion that the Company could upgrade the line to 115 kV is contrary to written statements the Company has made to the public and the executed memorandum of understanding (MOU) between the Xcel and the City of Plymouth. Xcel added that the MOU and Xcel's intent to purchase this line is part of the Hollydale dockets' record. Furthermore, Ms. Overland is on the Company's general service list and, accordingly, received notice of the Company's petition on September 29, 2017, the day it was initially filed.

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<sup>7</sup> See Docket E-002/PA- 13-484

Finally, Xcel noted that, under Minn. R. 7829.0100, subp. 11, the Petition falls under the definition of a “miscellaneous filing” and that there already was an open comment period. Pursuant to Minn. R. 7829.1400, subps. 4 “the utility and other persons have ten days from the expiration of the original comment period to file reply comments.” Under this timeline, reply comments were not due until Monday, December 11, 2017.

Ms. Overland has not made any additional filings in this docket.

#### **E. Xcel Energy – Compliance Filing**

Since Xcel’s annual compliance filing in the Hollydale dockets makes reference to this transaction, the Company’s filed a copy in this docket.

#### **V. Staff Comment**

Staff concurs with the Department that the proposed transaction appears to be reasonable and that final journal entries should be filed within 60 days of closing.

#### **VI. Decision Alternatives**

##### **Transaction**

1. Approve the proposed transaction. (Xcel, DOC)
2. Do not approve the proposed transaction.

##### **Variance**

3. Grant a variance to Minn. R. 7825.1800, subp. B as it relates to the information required under Minn. R. 7825.1400 items F through I. (Xcel, DOC)
4. Do not grant a variance to Minn. R. 7825.1800, subp. B as it relates to the information required under Minn. R. 7825.1400 items F through I.

##### **Compliance Filing**

5. Require Xcel to file final journal entries and amounts related to the property transfer, including narrative explanations describing the basis for the entries, within 60 days of the close of the transaction. (DOC, Xcel agreed)
6. Take no action.