

## Staff Briefing Papers

Meeting Date    March 16 , 2023    Agenda Item 1\*

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

Docket No.    **G-002/M-21-765**

**In the Matter of the Petition of Northern States Power Company, for Approval of a Gas Utility Infrastructure Cost Rider True-up Report for 2020, Updated Costs for 2021, Revenue Requirements for 2022, and Revised Adjustment Factors**

- Issues
1. Should the Commission approve or modify Xcel Energy’s proposed 2022 Gas Utility Infrastructure Cost (GUIC) Rider revenue requirement and adjustment factors?
  2. Should the Commission accept Xcel Energy’s GUIC Rider 2021 True-up Report?

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### Relevant Documents

### Date

Xcel Energy – Initial Petition	October 29, 2021
Xcel Energy – Corrections to 2022 GUIC Rider Petition Attachments C1D and C2	December 16, 2021
Department of Commerce – Comments	May 31, 2022
Fresh Energy	May 31, 2022
Xcel Energy – Reply Comments	June 13, 2022

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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.

 **Relevant Documents**

**Date**

Department of Commerce – Response to Reply Comments

July 11, 2022

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## I. Statement of the Issues

- Should the Commission approve or modify Xcel Energy's proposed 2022 Gas Utility Infrastructure Cost Rider revenue requirement and adjustment factors?
- Should the Commission accept Xcel Energy's 2020 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 (Petition) to be in effect March 1, 2023.<sup>1</sup> Subject to true-up, Xcel Energy requested that it be allowed to recover its forecasted 2022 GUIC revenue requirement of approximately \$27.3 million.<sup>2</sup> Xcel Energy's Petition includes expenditures for integrity management programs and deferred costs.

On May 31, 2022, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed comments recommending approval with modifications. The Department also requested that Xcel file additional information in reply comments.

On May 31, 2022, Fresh Energy filed comments recommending Xcel file a GUIC wind-down plan in its next GUEC rider petition in anticipation of the impending sunset of the GUIC rider in 2023.

On June 13, 2022, Xcel Energy filed reply comments discussing its revised 2022 revenue requirement request considering the Department's recommendations, the Company's filing of its rate case request and the Commission's implementation of interim rates. Xcel also responded to certain issues raised by the parties.

On July 11, 2022, the Department filed its response to reply comments and continued to recommend that the Commission allow Xcel to recover eligible project costs in its GUIC Rider, with modifications.

### B. Background

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.

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<sup>1</sup> Xcel Energy's Petition at 4.

<sup>2</sup> *Id.* at 1, 32. The Company's proposed \$27.3 million revenue requirement for 2022 assumes no GUIC tracker carryover balance from prior years.

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.

Generally, a public utility may not change its rates without undergoing a rate case in which the Commission comprehensively reviews the utility's costs and revenues. However, to expedite recovery of certain costs not reflected in the company's current base rates, the Minnesota Legislature created exceptions to this general policy, whereby a utility may implement a rider.

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 request recovery of 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.<sup>3</sup>

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).<sup>4</sup> 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.

### III. Xcel Energy's Petition

Xcel Energy has eight ongoing GUIC projects, three are TIMP-related and five are DIMP-related.<sup>5</sup> Pursuant to the Commission's decision in the Company's 2018 GUIC Rider docket<sup>6</sup> and 2019 GUIC Rider docket,<sup>7</sup> Xcel Energy's revenue requirement was based on a 9.04 percent return on equity (ROE) and a 7.00 percent rate of return.

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<sup>3</sup> A complete copy of Minn. Stat. § 216B.1635 is found in the appendix to these briefing papers.

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

<sup>5</sup> Xcel Energy's projects are more fully discussed in Attachment C (TIMP) and Attachment D (DIMP) of the Petition.

<sup>6</sup> *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, the Forecasted 2018 Revenue Requirements, and Revised Adjustment Factors*, Docket No. G-002/M-17-787, Order Authorizing Rider Recovery and Setting Reporting Requirements (August 12, 2019) at OP 3.

<sup>7</sup> *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, Order Authorizing Rider Recovery with Modifications (January 9, 2020) at OP 10.

Xcel Energy's 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 G-002/GR-09-1153.

Xcel Energy's proposed 2022 GUIC factors by customer class along with existing factors are shown in Table 1.<sup>8</sup>

**Table 1: Proposed 2021 GUIC Adjustment Factors  
(\$ per therm)**

	<b>Current Factors</b>	<b>2021 Factors*</b>	<b>2022 Proposed Classes</b>	<b>2022 Proposed Factors**</b>
Residential	\$0.033864	\$0.045595	Residential	\$0.047752
Commercial Firm	\$0.018572	\$0.025017	Commercial Firm	\$0.026201
Commercial Demand Billed	\$0.014666	\$0.019281	Demand	\$0.003485
Interruptible	\$0.010591	\$0.015381	Interruptible	\$0.011062
Transportation	\$0.001602	\$0.002101		

\* Assumes the 2021 revenue requirement is recovered Mar. 1, 2021, through February 28, 2023.

\*\* Assumes the 2022 proposed revenue requirement is recovered Mar. 1, 2023, through February 28, 2024.

With TIMP and DIMP combined, Table 2 summarizes 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:

<sup>8</sup> Xcel Energy Petition at 37.



<b>Table 2: Projected GUIC Capital Expenditures &amp; Revenue Requirements</b>			
<b>2015 – 2025</b>			
<b>(\$ 000s)</b>			
<b>Capital Expenditure<sup>9</sup></b>			
<b>Year</b>	<b>Annual</b>	<b>YTD</b>	<b>Rev. Req.<sup>10</sup></b>
Pre-2015		\$ 21,952	
2015	\$ 29,021	\$ 50,973	\$ 12,503
2016	\$ 31,978	\$ 82,951	\$ 16,147
2017	\$ 20,235	\$ 103,186	\$ 19,959
2018	\$ 45,704	\$ 148,890	\$ 16,606
2019	\$ 43,012	\$ 191,902	\$ 21,193
2020	\$ 57,406	\$ 249,308	\$ 19,639
2021	\$ 56,934	\$ 306,242	\$ 26,048
2022	\$ 58,938	\$ 365,180	\$ 27,281
2023	\$ 60,707	\$ 425,887	\$ 38,049
2024	\$ 60,106	\$ 485,993	\$ 43,345
2025	\$ 60,183	\$ 546,176	\$ 47,910
2026	\$ 58,641	\$ 604,817	\$ 52,909

On page 39 of its Petition, Xcel Energy proposed a customer notice billing message using the same language approved in its prior GUIC docket. Xcel Energy stated its willingness to work with Department and Commission staff if modifications are suggested.

As shown in Table 3, Xcel Energy, in *Reply Comments* revised its revenue requirement upward from \$27.28 million to \$28.82 million to account for the removal of indirect survey costs, replacement expenditures, the GUIC retirement revenue adjustment, and the recovery in base rates adjustment.

**Table 3: 2021 GUIC Rider Revenue Requirements Summary (\$ Millions)**

2022 Revenue Requirement in Petition	\$27.280
Remove Rahr Lateral Indirect Survey Costs	(0.046)
Remove H005 Replacement Expenditures	(0.080)
Remove GUIC Retirement Revenue Adjustment	0.847
Remove Recovery in Base Rates Adjustment	0.815
<b>Updated 2022 Revenue Requirement</b>	<b>\$28.817</b>

<sup>9</sup> Xcel Energy Petition at 32.

<sup>10</sup> *Id.* at Attachment O.

## **IV. Discussion of Issues**

### **A. DIMP – Distribution Pipeline Inspection and Replacement**

#### **1. Introduction**

Distribution pipeline inspections and replacements are part of an ongoing program that involves the regular inspection and replacement of high- and medium-risk segments of distribution pipeline to satisfy the federal pipeline safety regulations set forth by PHMSA rules. The asset health data collected from these inspections are used to develop plans for additional mitigation actions as needed to protect public safety. Major DIMP initiatives include 1) poor performing main replacement, 2) poor performing service replacement, 3) distribution pipeline inspection and replacement, 4) distribution valve replacement, and 5) casing renewals. Project work under this program is detailed in Attachments D, D1, D2(a), and D2(b) of Xcel’s Petition.

The Company expects to conduct four DIMP assessments in 2022, covering 10.7 miles of distribution pipeline. Additionally, two pipeline replacement projects are expected to be completed. Also, fifteen distribution valves are planned for replacement. Casing renewal work will continue into 2022 and into the future until all casing risks have been mitigated.

#### **2. Department Comments**

The Department, noting that, in its Petition, Xcel cancelled the survey work on Rahr Lateral line and put the H005 replacement project on hold, recommended that the associated costs be removed from the 2022 GUIC Rider.

#### **3. Xcel Energy Reply Comments**

Xcel Energy provided the requested information and removed the Rahr Lateral Line and H005 project costs, \$46,000 and \$79,646 respectively, from its 2022 Revenue Requirement Summary.

#### **4. Staff Comments**

This issue appears to be resolved.

### **B. TIMP – Programmatic Replacement and MAOP Remediation**

#### **1. Introduction**

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.<sup>11</sup> Historically, this project has been a

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<sup>11</sup> 49 C.F.R. § 192.619.



contested issue. In Xcel Energy's three of its four most recent GUIC rider petitions<sup>12</sup>, the Commission limited the "return on" of this TIMP capital project to the Company's weighted cost of debt.<sup>13</sup> In the instant Petition, Xcel Energy stated that it has forecasted MOAP work for 2022.<sup>14</sup>

## 2. Department Comments

The Department noted that Xcel Energy continues to reflect the Commission ordered recovery limitations for prior years' project work in its 2022 GUIC revenue requirement calculations. In the instant Petition, Xcel has planned two multi-year MAOP replacement projects. The Department requested that the Company provide updated financials in its Reply Comments showing the removal of the equity return on its TIMP Programmatic Replacement/MAOP Remediation projects.<sup>15</sup>

## 3. Xcel Reply Comments

The Company noted that it had already removed equity return from its TIMP/MAOP projects.<sup>16</sup>

## 4. Staff Comments

Staff notes this issue has been resolved.

# C. Revenue Apportionment

## 1. Introduction

Revenue apportionment involves determining how the costs of the various GUIC projects are allocated amongst the various customer classes. The Commission will establish the revenue requirement in its Order and the revenue responsibilities will be apportioned to the customer

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<sup>12</sup> Xcel had no additional MOAP work planned for 2021 in Docket No. G-002/M-20-799.

<sup>13</sup> *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, the Forecasted 2018 Revenue Requirements, and Revised Adjustment Factors*, Docket No. G-002/M-17-787, Order Authorizing Rider Recovery and Setting Reporting Requirements (August 12, 2019) at OP 5.

*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, Order Authorizing Rider Recovery with Modifications (January 9, 2020) at OP 8.

*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*, Docket No. G-002/M-19-664, Order Authorizing Rider Recovery with Modifications (May 3, 2021) at OP 4.

<sup>14</sup> Xcel Energy Petition at 9.

<sup>15</sup> Department Comments at 20.

<sup>16</sup> Xcel Reply Comments at 3.

classes. Xcel Energy's GUIC revenue requirement has been consistently apportioned across classes based on its most recent rate case.<sup>17</sup>

## 2. Department Comments

The Department noted that it supports an apportionment of revenue requirement in a rider that models what was established in a rate case because the practice minimizes rate fluctuations when rider-recovered costs are rolled into base rates, to the extent apportionment reflects the class cost of service from which it was informed. However, the Department noted that Xcel's apportionment was based on the last approved rate case over ten years ago. Therefore, the Department initially recommended that the Commission use the current allocator and deny Xcel's proposed apportionment.<sup>18</sup> The Department noted that it was not sponsoring any particular action but rather its remarks on this matter were intended to inform the Commission.

## 3. Xcel Reply Comments

Xcel replied that its proposal was based on the Company's approved apportionment in the 2010 Rate Case. Additionally, the proposed apportionment preserves the rate design goal of maintaining indifference to a customer's choice of sales service or transportation service.<sup>19</sup>

## 4. Department Response Comments

Considering the Company's Reply Comments, the Department did not oppose the Company's proposed apportionment.

## 5. Staff Comments

Staff notes that Xcel Energy filed a rate case on November 1, 2021<sup>20</sup> and, although a settlement has been reached, the case has not been heard by the Commission. Once the rate case concludes, a new revenue apportionment will go into effect in conjunction with implementation of final rates. Staff expects a Commission Order in the rate case sometime during the 2<sup>nd</sup> quarter of 2023. Staff agrees with the Department that no Commission action is required on this issue in this docket.

## D. Sales Forecast

### 1. Introduction

Xcel Energy uses a sales forecast to project natural gas consumption for each customer class and given each class's 2021 revenue requirement, the projected sales are used to determine

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<sup>17</sup> See, Docket No. G-002/GR-09-1153.

<sup>18</sup> Department Comments at 21-22.

<sup>19</sup> Xcel Reply Comments at 7-8.

<sup>20</sup> See, Docket No. G-002/GR-21-678.

each class's proposed 2022 GUIC rate . The sales forecast must be reasonable since a sales forecast that is too low will cause rates to be too high, and Xcel Energy will over-recover its revenue requirement. Conversely, if the sales forecast is too high, rates will be set too low, and the Company will under-recover its revenue requirement.

Historically, the sales forecast has been a contested issue. In Xcel Energy's recent GUIC rider petitions, the Commission required Xcel Energy to use its most recent 12-months of actual sales data rather than the Company's proposed forecast. However, considering the history of the contested issue, Xcel has changed to using actual sales data in this docket. Also, the Company reserved the right to begin using forecasted sales data in a future GUIC Rider request.<sup>21</sup>

## **2. Department Comments**

The Department noted that Xcel calculated final rate factors using actual sales data in its Petition. Therefore, the Department concluded that the sales forecast issue in this docket is resolved and recommended that the Commission adopt this agreement.

## **3. Staff Comments**

Staff agrees with the Department's statement that no Commission action on this issue is necessary in this docket.

## **E. Offsets to GUIC Revenue Requirements**

### **1. Introduction**

Per Minn. Stat. § 216B.1635, the GUIC Rider is to recover only costs incremental to those reflected in base rates. Therefore, to achieve only incremental cost recovery through the GUIC rider, base rate revenue requirement offsets (i.e., adjustments) are included to account for costs already being recovered through existing rates. Table 4 summarizes, Xcel Energy's proposed revenue requirement:<sup>22</sup>

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<sup>21</sup> Xcel Energy Petition at 37.

<sup>22</sup> Xcel Energy Petition at 32.

**Table 4: Xcel Energy's Proposed 2021-2022 GUIC Revenue Requirement (\$ Millions)**

	2021 Current Forecast	2022 Forecast
<b>Capital-Related Revenue Requirement</b>		
TIMP	\$13.8	\$13.9
DIMP	16.5	20.7
Total	30.3	34.6
<b>O&amp;M Expenses</b>		
TIMP	1.7	0.5
DIMP	0.4	0.3
Total	2.1	0.8
<b>Adjustments</b>		
GUIC Retirement Revenue Credits	(0.7)	(0.8)
Internal Capitalized Costs	(0.4)	(0.4)
MAOP Projects at Long-term Debt Rate of Return	(1.8)	(1.7)
Low-Risk Infrastructure	(0.04)	(0.04)
Recovery in Base Rates	(0.8)	(0.8)
Prior-year Disallowances	<u>(3.1)</u>	<u>(4.2)</u>
<b>Revenue Requirement Subtotal</b>	(6.8)	(8.1)
<b>True-up Carryover</b>	0.5	-
<b>Total GUIC Rider Revenue Requirement</b>	\$26.0	\$27.3

## 2. Department Comments

The first estimated \$(0.80) million adjustment accounts for the capital-related costs included in base rates for infrastructure that has since been retired due to GUIC projects. Many GUIC projects replace or modify existing natural gas facilities; this adjustment recognizes that the Company's base rates include recovery of costs associated with those facilities no longer in service. The Department noted that Xcel Energy will update this adjustment to the rider's revenue requirement once actual 2021 and 2022 facility retirements are known.<sup>23</sup>

Second, the \$(0.4) million operating and maintenance (O&M) adjustment reflects transmission integrity management expense levels that were built into Xcel Energy's base rates. By recognizing the revenue requirement of these cost recoveries embedded in the Company's existing base rates and adjusting them out from the gross GUIC project work revenue requirements, an incremental revenue requirement for the rider is established.

Third, the estimated \$(1.7) million adjustment for MAOP Projects at Long-Term Debt Rate of Return is related to Commission *Order* dated May 3, 2021 in Docket No. G-002/M-19-664,

<sup>23</sup> Department Comments at 11-12.



which limited the return on capital costs to remediate the system's MAOP data gaps to the weighted long-term cost of debt over the life of the capital expenditures.

Fourth, the estimated \$(40,000) adjustment for Low-Risk Infrastructure is related to Commission *Order* dated January 9, 2020 in Docket No. G-002/M-18-692, which requires the Company to remove and exclude costs related to any low-risk infrastructure replacements performed in conjunction with GUIC work but not specifically mandated by government regulation or public work requirements from the GUIC Rider.

Fifth, the estimated \$(0.8) million adjustment for Recovery in Base Rates is consistent with prior GUIC Rider petitions.

Sixth, the estimated \$(4.2) million adjustment for Prior-year Disallowances is related to disallowed capitalized costs for overheads for 2018 – 2020 and project overrun disallowance for the Island Lake South Project.

The Department recommended that Xcel Energy be allowed to update the offset inputs to the revenue requirement once the actual 2021 and 2022 retirements are known. Regarding the prior year carryover balance, the Company did not request an adjustment for True-up Carryover. The Company will update the 2022 request if the resolution of Xcel Energy's 2021 GUIC request<sup>24</sup> requires any carryover into 2022.

### **3. Xcel Energy Reply Comments**

Xcel Energy did not file reply comments on this issue.

### **4. Staff Comments**

This issue appears to be undisputed.

## **F. Internal Capitalized Costs**

### **1. Introduction**

To avoid double-recovery, outside of rate cases, the Commission has generally not allowed recovery of internal capitalized costs such as overhead, other and transportation costs. This includes Xcel Energy's GUIC Rider; the Commission denied recovery of certain internal capitalized costs in the Company's 2018, 2019, 2020, and 2021 GUIC Riders.<sup>25</sup>

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<sup>24</sup> Docket No. G-002/M-20-799.

<sup>25</sup> 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, the Forecasted 2018 Revenue Requirements, and Revised Adjustment Factors, Docket No. G-002/M-17-787, Order Authorizing Rider Recovery and Setting Reporting Requirements (August 12, 2019) at OP 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 2018, the Forecasted 2019 Revenue Requirements, and Revised Adjustment Factors, Docket No. G-002/M-18-692, Order Authorizing Rider*

Xcel has maintained that recovery of internal capitalized costs is allowable. However, it recognized that the Commission has not allowed recovery in previous dockets. Therefore, the Company has removed these items from the current request, though it reserved the ability to reassess the inclusion of these costs in future requests after its next general rate case.<sup>26</sup>

## 2. Department Comments

The Department requested Xcel Energy include, in its reply comments, updated financial schedules with the Overheads, Transportation, and Other internal capitalized costs removed.<sup>27</sup>

## 3. Xcel Energy Reply Comments

Xcel Energy already removed the requested internal capitalized costs in its revenue requirement request. The Company will adjust its final revenue requirement request for internal capitalized costs based on its actual 2022 spending.<sup>28</sup>

## 4. Staff Comments

This issue appears to be resolved.

# G. Performance Metrics

## 1. Introduction

The Commission uses risk assessment and performance metrics tools to help determine the reasonableness of GUIC investments. Risk assessment is prospective in that 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 in that as projects are completed, this tool can help the Commission determine how reasonable Xcel Energy's cost estimates were afterwards. In Xcel Energy's 2015 GUIC Rider filing, the Commission required Xcel Energy to develop metrics and reporting requirements to analyze the appropriateness of the Company's GUIC expenditures.<sup>29</sup>

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Recovery with Modifications (January 9, 2020) at OP 9.

*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*, Docket No. G-002/M-19-664, Order Authorizing Rider Recovery with Modifications (May 3, 2021) at OP 5.

*In the Matter of the Petition of Northern States Power Company for Approval of a Gas Utility Infrastructure Cost Rider True-Up Report for 2020, Revenue Requirements for 2021, and Revised Adjustment Factors*, Docket No. G-002/M-20-799, Order Authorizing Rider Recovery with Modifications (November 18, 2022) at OP 8.

<sup>26</sup> Xcel Energy Petition at 30.

<sup>27</sup> Department Comments at 23.

<sup>28</sup> Xcel Energy Reply Comments at 3.

<sup>29</sup> *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*

Xcel Energy made its initial metrics proposal in a supplemental filing to its 2017 GUIC Rider filing.<sup>30</sup> The same proposed metrics were included in the Company's 2018 GUIC Rider request.<sup>31</sup> In its February 8, 2018, Order, the Commission declined to adopt the proposed metrics and ordered Xcel Energy to continue to discuss metrics with other parties.<sup>32</sup>

In its 2021 GUIC Rider filing,<sup>33</sup> the Company proposed a set of metrics that the Department appeared to support. The Department responded, requesting that Xcel establish metrics for new programs for 2021—casing renewals, mandated relocations, and new distribution valve replacements.<sup>34</sup>

Prior to submitting the metrics proposal, as shown in Table 5, the Company continued the discussion with stakeholders from the Department, Minnesota Office of Pipeline Safety (MNOPS), and Office of the Attorney General (OAG).

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*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.

<sup>30</sup> See Supplement and Compliance Metrics Proposal, Docket No. G-002/M-16-891 (January 13, 2017).

<sup>31</sup> See Petition, Compliance Filing, and Annual Report, Page 42, Docket No. G-002/M-17-787 (November 1, 2017).

<sup>32</sup> *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 5.

<sup>33</sup> Docket No. G-002/M-20-799.

<sup>34</sup> Xcel Energy Petition at 41.

**Table 5: Xcel Energy Recommended Performance Metrics**

	Project	Cost Performance Metric	Effectiveness Performance Metric
TIMP	Transmission Pipeline Integrity Assessments	Estimated vs. Actual costs per project	Anomalies repaired by type
	ASVs and RCVs	Estimated vs. Actual costs per project	Reduction in response time per project
	Programmatic Replacement and MAOP Remediation	Estimated vs. 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 Service Replacement Unit Cost (per foot)	Leak rate by vintage
	Distribution Pipeline Integrity Assessment	Estimated vs. Actual costs per project	Anomalies repaired by type
	Distribution Valve Replacement	Estimated vs. Actual costs per project	Percentage of inoperable valves replaced
	Distribution Valve Replacement (New Valves Only)	Estimated vs. Actual costs per project	Reduction in potential customer outages
	Sewer and Gas Line Conflict Investigation	Inspection unit cost	Percentage of total premises inspected
TIMP/DIMP	Casing Renewals	Estimated vs. actual costs per project	Percentage of casing projects planned for the year completed
	Mandated Relocations	Estimated vs. actual costs per project	Number of planned mandated relocations vs. actual relocations

## 2. Department Comments

The Department requested Xcel provide an explanation for the J-DIMP Mitigated Risk/Foot priority scores in Attachment D2(b) and removal of medium risk category for TIMP MAOP project risk assessment in its Reply Comments.

The Department reviewed the performance metric outcomes of Xcel Energy's prior years' project work, included in Attachment U of the Company's Petition, and concluded Xcel Energy's reported performance results appear reasonable.

## 3. Xcel Energy Reply Comments



The Company stated the risk scores calculated for the J-DIMP Mitigated Risk/Foot priority scores are used to prioritize the work based on assessed risk. These calculations are unitless and only intended for comparing pipeline projects for potential replacement.<sup>35</sup>

#### **4. Staff Comment**

This issue appears to be resolved.

### **H. Plan to Wind Down GUIC Rider**

#### **1. Fresh Energy Comments**

Fresh Energy recommended the formation of a plan to wind down Company expenditures on gas infrastructure.<sup>36</sup> The GUIC statute is set to expire on June 30, 2023.

Fresh Energy noted that, while safety and reliability are important, broader questions regarding policy, equity, and climate need to be addressed. Xcel's recent upward trend in GUIC replacement spending is creating a burden for future ratepayers to bear. For example, Minnesota's gas utilities are amid a multi-year and multi-billion program to accelerate the replacement of aging gas distribution infrastructure. From 2012 to 2026, Xcel projects that it will spend over \$600 million on GUIC-related projects. The Company's 2021 and 2022 GUIC annual capital expenditures of about \$60 million are more than the total capital spending in its 2010 rate case.

Similarly, CenterPoint Energy's annual distribution system replacement spending has increased from \$65 million in the early 2000's to over \$300 million in the coming years.

In the face of these significant increases in replacement spending and changes in policy, Xcel's gas infrastructure spending should be reoriented towards the future of Minnesota's gas market. Fresh Energy recommended Xcel file a replacement spending wind-down plan for its next GUIC request, especially considering the upcoming sunset of the statute.

Xcel's gas infrastructure replacement spending should begin to conform with recent policy decisions, such as the Natural Gas Innovation Act (NGIA), that direct utilities to reduce the amount of geologic gas delivered to customers. Additionally, the GUIC statute prohibits the recovery of projects that constitute a betterment or serve to increase revenues. New replacement spending will likely motivate the Company to continue to maintain system throughput to show that its gas distribution infrastructure is still used and useful. The motivation to continue gas system operating status would be even stronger if non-gas alternatives, such as electrification, are adopted. The existence of a used and useful gas system serves as strong evidence for the cost recovery argument.

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<sup>35</sup> Xcel Reply Comments at 4.

<sup>36</sup> Fresh Energy Comments.

Moreover, as efforts to decarbonize Minnesota's natural gas system advance and as customers move away from geologic gas to non-carbon intensive alternatives, continued accelerated replacement spending raises the risk of stranded assets on Xcel's gas distribution system.

Fresh Energy argued, instead, that it is more cost-effective to avoid the creation of stranded assets in the first place through accelerated infrastructure spending.

Xcel's recent proceeding in Colorado was cited as a roadmap forward for Xcel's GUIC investments. The Colorado and Minnesota cases have many similarities, including relatively close greenhouse gas reduction goals by 2050. Also, both states have beneficial electrification goals for customer migration from natural gas energy. In Colorado, the priority of replacing higher risk pipes was expected to lead to a fall in the pace of investments and a drop in over distribution pipe risks to the public.

Similarly for Minnesota, Xcel's accelerated investments over the last few years in risk mitigation should lead to a natural drop in investment levels since higher risk projects have been resolved and safety concerns satisfied.

In the Colorado proceeding, Xcel requested rider recovery through 2024; however, in 2021, all parties agreed to close the distribution pipe replacement program. The agreed-upon Colorado wind-down plan included the following four requirements:

- A thorough analysis of all projects to be included in an ongoing rider.
- The criteria used to determine whether future projects qualify for rider treatment.
- A timeline for all rider projects to be completed, including a quantitative risk assessment system; and
- A plan stating how remaining projects in the rider and other future pipeline replacements, or significant safety expenditures will be addressed through the ordinary course of business when the rider is terminated.

Fresh Energy recommended a two-step wind down plan for Xcel Minnesota. First, Xcel should establish a timeline for each current GUIC project to be completed. Second, Xcel should open a discussion of how future distribution system projects should be considered, including analysis of alternative solutions to the replacement of existing gas pipe, including electrification and networked geothermal technology, for instance.

Finally, Fresh Energy recommended the Commission and Xcel coordinate the topic of accelerated infrastructure replacement with the "Future of Gas" docket<sup>37</sup> and Xcel's current rate case.<sup>38</sup>

## 2. Xcel Energy Reply Comments

Xcel shared with Fresh Energy an interest in reduction of greenhouse gases and decarbonization of the natural gas system. The Company continues to participate in the

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<sup>37</sup> Docket No. G-999/CI-21-565.

<sup>38</sup> Docket No. G-002/GR-21-678.



Natural Gas Innovation Act (NGIA). However, such climate-wide efforts have no effect on the duty to safely and reliably serve its existing natural gas customers.<sup>39</sup>

Citing Minn. Stat. § 216B.1635, subdiv. 1, the Company noted that recoverable gas infrastructure costs are limited to two reasons. The first reason is replacement of gas facilities located in the public right of way required by construction or improvement of public work done by a municipality. The second reason is replacement or modification of existing gas facilities required by a federal or state agency. By definition, then, Xcel's GUIC costs address safety and reliability issues, and regulatory requirements.

Xcel viewed Fresh Energy's wind-down plan as unnecessary because the Company already reports information regarding timelines and project dates.

Xcel also viewed Fresh Energy's wind-down plan as incompatible with the intent of the GUIC statute. The scope of GUIC recovery is limited to natural gas replacement projects already required by government agencies.

Therefore, although it shares an interest in the policies Fresh Energy discussed, Xcel suggested that GUIC is not the appropriate forum for such discussions. Considering the coming expiration of GUIC on June 30, 2023, the Company recommended a more fruitful discussion of next year's GUIC filing regarding how and whether to use this rider to recover these gas distribution replacement investments.

Xcel also agreed with Fresh Energy that the wider policy discussions relating to decarbonization, electrification, and gas investments take place in the context of the NGIA and the Future of Gas Dockets.

### **3. Staff Comments**

Staff notes that parties' discussion overlaps between their respective areas of concern. Both parties acknowledge the legitimate issues raised by the other. As identified in the GUIC statute above, a key component of this question is the effect of regulatory requirements on the pattern of GUIC expenditures in recent years. A second factor in this discussion is the length of time between Xcel's current system status and Fresh Energy's expected future state of decarbonization and electrification.

On the one hand, Fresh Energy's focus is on wider policy questions regarding the future of natural gas-fueled energy generation, and the related questions about decarbonization and electrification. In its filing, the Fresh Energy acknowledges the legitimate issues of safety and reliability in natural gas distribution.

On the other hand, Xcel's focus is on safety and reliability issues with the current state of the distribution system it owns. Governmental regulations seem to mainly drive Xcel's attention on

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<sup>39</sup> Xcel Reply Comments at 9-10.



the present status of its gas distribution system. Like Fresh Energy, Xcel also acknowledges the ongoing, but separate, discussions surrounding the broader policy issues.

## **V. Decision Options**

### **Xcel Energy's 2022 Gas Utility Infrastructure Cost (GUIC) Rider revenue requirement and adjustment factors**

1. Approve Xcel Energy's proposed 2022 GUIC Rider revenue requirement and adjustment factors as filed, with the adjustments set forth in Xcel Energy's June 13, 2022 reply comments, except as modified herein. (Xcel Energy, Department)

### **Xcel Energy's GUIC Rider 2021 True-up Report?**

2. Accept Xcel Energy's GUIC Rider True-up Report. (Xcel Energy, Department)

### **DIMP – Distribution Pipeline Inspection and Replacement**

3. Approve the proposed DIMP project budget as adjusted in Xcel Energy's June 13, 2022 reply comments. (Xcel Energy, Department)

### **TIMP – Programmatic Replacement and MAOP Remediation**

4. Approve Xcel Energy's proposed TIMP project budget. (Xcel Energy, Department)

### **Revenue Apportionment**

5. Require Xcel Energy to continue to assign class revenue responsibilities for GUIC Rider costs based on the apportionment established in the Company's most recent approved rate case in Docket No. G-002/GR-09-1153. (Xcel Energy) [The Department does not oppose Xcel's proposed apportionment.]
6. Choose some other action.

### **Sales Forecast**

7. Approve Xcel Energy's request to use the most recent 12 months of actual natural gas sales to allocate the costs across jurisdictions and classes. (Department, Xcel Energy)

### **Offsets to GUIC Rider Revenue Requirement**

8. Allow Xcel Energy to update the base rate recovery offset inputs to the 2022 rider revenue requirement once actual 2021 and 2022 retirements are known, and direct Xcel Energy to include the corresponding support schedules for the offset amount for each cost category. (Department, Xcel Energy)

### **Internalized Capital Costs**

9. Approve Xcel Energy's Internal Capitalized Costs. (Department, Xcel Energy)

#### **Performance Metrics**

10. Approve Xcel Energy's Performance Metrics. (Department, Xcel Energy)

#### **GUIC Wind-Down Plan**

11. Require Xcel to file a Wind-Down Plan in future GUIC Rider Petitions that includes the following two components:
  - A. Require Xcel to establish a timeline for each current GUIC project to be completed.
  - B. Require Xcel to open a discussion of how future distribution system projects should be considered, including analysis of alternative solutions to the replacement of existing gas pipe. (Fresh Energy)

or

12. Do not require Xcel to file a Wind-Down Plan. (Xcel Energy)

#### **Compliance Filings**

13. Require Xcel Energy to make a compliance filing within ten days of the date of this Order showing the final rate adjustment factors, and all related tariff changes. (Department)  
  
and,
14. Require Xcel Energy to include electronic files of its revenue requirements schedules, with formulae intact, in its final compliance filing. (Department)
15. Delegate approval of the compliance filings to the Executive Secretary. (Staff)

## VI. Appendix

### Minnesota Statutes

#### 216B.1635 RECOVERY OF GAS UTILITY INFRASTRUCTURE COSTS.

Subdivision 1. **Definitions.** (a) "Gas utility" means a public utility as defined in section 216B.02, subdivision 4, that furnishes natural gas service to retail customers.

(b) "Gas utility infrastructure costs" or "GUIC" means costs incurred in gas utility projects that:

(1) do not serve to increase revenues by directly connecting the infrastructure replacement to new customers;

(2) are in service but were not included in the gas utility's rate base in its most recent general rate case, or are planned to be in service during the period covered by the report submitted under subdivision 2, but in no case longer than the one-year forecast period in the report; and

(3) do not constitute a betterment, unless the betterment is based on requirements by a political subdivision or a federal or state agency, as evidenced by specific documentation, an order, or other similar requirement from the government entity requiring the replacement or modification of infrastructure.

(c) "Gas utility projects" means:

(1) replacement of natural gas facilities located in the public right-of-way required by the construction or improvement of a highway, road, street, public building, or other public work by or on behalf of the United States, the state of Minnesota, or a political subdivision; and

(2) replacement or modification of existing natural gas facilities, including surveys, assessments, reassessment, and other work necessary to determine the need for replacement or modification of existing infrastructure that is required by a federal or state agency.

Subd. 2. **Gas infrastructure filing.** A public utility submitting a petition to recover gas infrastructure costs under this section must submit to the commission, the department, and interested parties a gas infrastructure project plan report and a petition for rate recovery of only incremental costs associated with projects under subdivision 1, paragraph (c). The report and petition must be made at least 150 days in advance of implementation of the rate schedule, provided that the rate schedule will not be implemented until the petition is approved by the commission pursuant to subdivision 5. The report must be for a forecast period of one year.

Subd. 3. **Gas infrastructure project plan report.** The gas infrastructure project plan report required to be filed under subdivision 2 shall include all pertinent information and supporting data on each proposed project including, but not limited to, project description and scope,

estimated project costs, and project in-service date.

**Subd. 4. Cost recovery petition for utility's facilities.** Notwithstanding any other provision of this chapter, the commission may approve a rate schedule for the automatic annual adjustment of charges for gas utility infrastructure costs net of revenues under this section, including a rate of return, income taxes on the rate of return, incremental property taxes, incremental depreciation expense, and any incremental operation and maintenance costs. A gas utility's petition for approval of a rate schedule to recover gas utility infrastructure costs outside of a general rate case under section 216B.16 is subject to the following:

- (1) a gas utility may submit a filing under this section no more than once per year; and
- (2) a gas utility must file sufficient information to satisfy the commission regarding the proposed GUIC. The information includes, but is not limited to:
  - (i) the information required to be included in the gas infrastructure project plan report under subdivision 3;
  - (ii) the government entity ordering or requiring the gas utility project and the purpose for which the project is undertaken;
  - (iii) a description of the estimated costs and salvage value, if any, associated with the existing infrastructure replaced or modified because of the project;
  - (iv) a comparison of the utility's estimated costs included in the gas infrastructure project plan and the actual costs incurred, including a description of the utility's efforts to ensure the costs of the facilities are reasonable and prudently incurred;
  - (v) calculations to establish that the rate adjustment is consistent with the terms of the rate schedule, including the proposed rate design and an explanation of why the proposed rate design is in the public interest;
  - (vi) the magnitude and timing of any known future gas utility projects that the utility may seek to recover under this section;
  - (vii) the magnitude of GUIC in relation to the gas utility's base revenue as approved by the commission in the gas utility's most recent general rate case, exclusive of gas purchase costs and transportation charges;
  - (viii) the magnitude of GUIC in relation to the gas utility's capital expenditures since its most recent general rate case; and
  - (ix) the amount of time since the utility last filed a general rate case and the utility's reasons for seeking recovery outside of a general rate case.

**Subd. 5. Commission action.** Upon receiving a gas utility report and petition for cost recovery under subdivision 2 and assessment and verification under subdivision 4, the commission may approve the annual GUIC rate adjustments provided that, after notice and comment, the costs included for recovery through the rate schedule are prudently incurred and achieve gas facility improvements at the lowest reasonable and prudent cost to ratepayers.

**Subd. 6. Rate of return.** The return on investment for the rate adjustment shall be at the

level approved by the commission in the public utility's last general rate case, unless the commission determines that a different rate of return is in the public interest.

Subd. 7. **Commission authority; rules.** The commission may issue orders and adopt rules necessary to implement and administer this section.

**History:** *2005 c 97 art 10 s 1,3; 2013 c 85 art 7 s 2,9*

**NOTE:** This section expires June 30, 2023. Laws 2005, chapter 97, article 10, section 3, as amended by Laws 2013, chapter 85, article 7, section 9.