

Staff Briefing Papers

Meeting Date December 8 and 9, 2021

Agenda Item 1**

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

Docket No. **G-002/M-21-750**

In the Matter of the Petition by Northern States Power Company, dba Xcel Energy, for Approval of Deferrals Related to Depreciation O&M and Property Tax for 2022

Issues:

- Should the Commission approve Xcel’s request to approve 2022 deferrals?
- If approved, should Xcel’s gas general rate case be withdrawn?

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Relevant Documents

Date

Xcel Energy

Initial Filing

November 1, 2021

Comments

Department of Commerce (DOC)

November 10, 2021

Office of the Attorney General – Residential Utilities and Antitrust Division (OAG)

November 10, 2021

Suburban Rate Authority (SRA)

November 10, 2021

Energy Cents Coalition (ECC)

November 10, 2021

Citizens Utility Board of Minnesota (CUB)

November 10, 2021

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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

Reply Comments

Xcel Energy

November 15, 2021

Suburban Rate Authority

November 15, 2021

Supplemental Reply Comments

Xcel Energy

November 23, 2021

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I. Statement of the Issues

Should the Commission approve Xcel's request to approve 2022 deferrals?

If approved, should Xcel's gas general rate case be withdrawn?

II. Background

On November 1, 2021, as an alternative to litigating its rate case proceeding in Docket No. G-002/GR-21-678, Xcel Energy (Xcel, Company) filed a proposal (Proposal) to defer \$31.643 million in depreciation expense, distribution O&M expenses, and property tax expenses for the 2022 calendar year. If this Proposal is accepted, Xcel committed to withdrawing its rate case that was also filed on November 1, 2021.¹

On November 10, 2021, the Minnesota Department of Commerce, Division of Energy Resources (Department) and the Minnesota Office of Attorney General, Residential Utilities Division (OAG) filed comments recommending that the Proposal be denied.

On November 10, 2021, the SRA, ECC and CUB filed comments recommending that the Proposal be approved.

On November 15, 2021, Xcel filed reply comments reasserting its support for the Proposal. On the same day, the SRA filed reply comments expressing concerns regarding how Xcel's Proposal is consistent with the Commission's Order in Docket No. E,G-002/M-19-723 (19-723 Order) and can remain a part of the Deferral offer.

On November 23, 2021, Xcel filed supplemental reply comments addressing the SRA's concerns. In its filing, Xcel stated that consistency with the 19-723 Order would increase the deferral amount to \$44.571 million.

III. Comments

A. Xcel Energy – Petition for Approval of Deferrals – Initial Filing

Xcel stated that it understands that customers are confronted with rising commodity costs and the impacts of Winter Storm Uri that will impact their bills during the upcoming heating season. Additionally, there are numerous important utility regulatory matters that will need to be carefully considered by the Commission and other state agencies. These include filed rate cases, the Commission's investigation into the February 2021 gas spike, critical Certificate of Need filings, Xcel's pending Integrated Resource Plan and the regulatory filings required to implement the NGIA.

¹ Docket No. G-002/GR-21-678 is also scheduled on this agenda meeting.

If as a result, and Xcel’s Proposal presents a rate case alternative that can be construed as a reasonable and appropriate resolution of rates for 2022 rather than the time and expense of beginning litigation of the rate case in 2022 while also providing the time and space for the Commission and other agencies to address other important dockets over the next year.

If the Petition is approved, Xcel committed to withdrawing its general rate case filing and to not file a new general rate case until on or after November 1, 2022. If approved, the Petition would leave base rates at approved 2010 test year levels, with a deferral of certain depreciation, distribution O&M, and property tax expenses. Since its Petition seeks no new revenues in 2022, Xcel believes the Proposal is in the public interest and merits Commission approval.

The Petition seeks approval of the following three deferrals:

- Depreciation expense in 2022 incremental to approved 2010 test year levels;
- Distribution O&M expense in 2022 incremental to approved 2010 test year levels; and
- Property tax expense in 2022 incremental to approved 2010 test year levels.

As shown below in Table 1, the Proposal would result in an estimated deferral of \$31.6 million, which the Company would seek to amortize and recover in its next general rate case.

Table 1 – Rate Case Alternative (Dollars in Thousands)

	2022 Interim Petition	Plus SEP and TD&G Adjustment²	Adjusted Rate Case Request	Minus E-002/GR-09-1153 Approved Amounts³	Deferral Request
Depreciation	\$46,805	(\$582)	\$47,387	\$32,684	\$14,703
Distribution O&M	\$39,105		\$39,105	\$24,062	\$15,043
Property Tax	\$14,871	\$199	\$14,672	\$12,776	\$1,896
Total					\$31,643

Xcel acknowledged that deferral does not guarantee cost recovery, but instead gives the Company the opportunity to demonstrate in a future general rate case that the expenses were actually incurred and prudently benefited customers. As a result, the requested deferral permits stakeholders the opportunity to scrutinize actual costs incurred. It merely delays the review of those costs until Xcel next files a case. Relatedly, the specific approach to recovery of these deferred costs can be addressed in that case, which would allow the Commission to make a decision on the appropriate amortization period at a time when it has a better understanding of the impacts of such amortization on customers’ rates.

² The depreciation deferral request includes adjustments to remove the impact of rolling SEP Rider amounts into base rates and to update TD&G depreciation consistent with the Company’s request in Docket No. E,G-002/D-21-584. These adjustments also have corresponding impacts on the requested property tax deferral

³ Commission’s Dec. 6, 2010 Order, Docket No. G-002/GR-09-1153.

1. Depreciation Expense Deferral

Xcel proposed to defer the interim depreciation expense, net of riders, included in the 2022 test year that is incremental to the depreciation expense approved for the 2010 test year in the Company's last gas rate case.⁴

The vast majority of these incremental depreciation expenses relate to pipes in the ground and other plant that Xcel has already installed since its last rate case. Xcel asserted that the value these investments are providing to its customers is self-evident; therefore, deferring this expense to avoid a rate case this year is appropriate. In essence, Xcel proposed to delay for another year the recovery of new assets placed in service since Xcel's last rate case.

In order to reflect an appropriate amount of deferred depreciation expense, Xcel requested the following changes to its depreciation expense:

- Approval of both proposed life extension for the peaking plants at Wescott, Sibley, and Maplewood, which would reduce annual depreciation expense as reflected in the testimony Ms. Laurie Wold submitted in Docket No. G-002/GR-21-678, and
- Approval to update the remaining lives and depreciation rates for Transmission, Distribution, and General (TD&G) functional classes of plant assets, currently pending in Docket No. E,G-002/D-21-584.

Table 2 summarizes the Depreciation Expense Deferral calculation.

Table 2 – Depreciation Deferral (Dollars in Thousands)

Unadjusted Depreciation		\$66,813
Rate Case Adjustments		
Peaking Plant Remaining Life Extension	(\$12,928)	
Other Rate Case Adjustments	(\$755)	(\$13,683)
Rate Case Depreciation		\$53,130
Interim Adjustments		
MN Gas Depreciation Study TD&G Interim	(\$933)	
Gas GUIC Rider Interim Removal	(\$5,378)	
MN Gas Distribution Intelligence Removal	(\$13)	(\$6,325)
Interim Petition Depreciation		\$46,805
Rate Case Alternative Adjustments		
MN Gas Depreciation Study TD&G Add Back	\$933	
SEP Gas Depreciation Removal	(\$351)	\$582
Adjusted Rate Case Alternative Depreciation		\$47,387
Less 2009 Rate Case Depreciation		(\$32,684)
Requested Depreciation Deferral		\$14,703

⁴ Docket No. G-002/GR-09-1153.

As explained in Ms. Mary Palkovich's testimony in Docket No. G-002/GR-21- 678, Xcel is making significant investments to refurbish the peaking plants to ensure they are able to provide reliable service for many more years. Consequently, as explained by Ms. Wold, Xcel is requesting the remaining lives of the plant assets be extended to 2041 (from 2023, 2027, 2029, and 2032, depending on the particular asset) in its pending general rate case. Because some of the investments are occurring in 2021 and 2022, a deferral of depreciation expense without a life extension would result in the deferred expense being too high given the now-expected lives of the plants.

The update to TD&G plant is driven by the updated remaining lives reflected in the annual compliance filing made July 29, 2021 in Docket No. E,G-002/D-21-584, which is pending before the Commission. In the pending general rate case in Docket No. G-002/GR-21-678, Xcel assumed this update will be adopted in its entirety, as it has in prior such dockets; therefore, Xcel asked that the Commission make a similar determination for this year's filing in connection with this deferral request.

2. Distribution O&M Deferral

Xcel's Petition also requests deferral approval of 2022 actual distribution O&M expense as reflected in the 2022 test year included in its pending rate case that is incremental to the distribution O&M expense approved by the Commission for the 2010 test year in the Company's last gas rate case. These costs have increased over the past decade largely due to increases in the cost of labor, as well as increases in the amount and cost of Damage Prevention (Gopher One Call) locate work.

In that time, Xcel have had labor costs increase based on merit increases, the addition of headcount to enhance the efficiency, oversight, and safety of our work, and efforts to significantly enhance the speed of our response to gas emergencies (\$7.7 million). With respect to Damage Prevention, costs have increased due to an increase in locates, increasing costs associated with Xcel's outside service contract for Damage Prevention, and efforts to improve accuracy and other metrics associated with the program (\$4.8 million). These all are costs necessary to continue providing reliable service would be appropriate to include in rates now.

In aggregate, these and other changes in distribution O&M expense would result in a deferral of \$15.0 million. Consistent with Xcel's depreciation deferral request, this request will be limited to actual distribution O&M expense, ensuring customers will not pay more in rates than the Company's actual expenses.

3. Property Tax Deferral

Finally, Xcel's Petition also requests approval to defer any property tax expense incurred in 2022, on a rider removed basis, that is incremental to the property tax expense approved by the Commission for the 2010 test year in the Company's last gas rate case. In essence, this is equivalent to the property tax true-up mechanism approved by the Commission in connection

with the Company's last electric rate case,⁵ and recent electric rate case stay-out requests.⁶ This deferral will be limited to the actual amount of property taxes, ensuring customers do not pay any more in rates than the Company actually owes, which is what the previously-approved true-up mechanisms accomplished. At this time, Xcel anticipates this deferral would include \$1.9 million in increased property tax payments.

B. Department of Commerce – Comments

The Department stated that assessing whether Xcel's stay-out proposal is in the public interest is complicated by the lengthy amount of time since Xcel's last rate case. With the passage of time, the test year costs and revenues become out-of-date, the propriety of rate base items may change, and cost apportionment between customer classes may become less accurate. This may be particularly true where the utility has not had a rate case in a number of years, or in Xcel's case, over a decade. The Department, therefore, prefers to engage in an in-depth review of Xcel's filing, with an eye to settlement, rather than provide Xcel with the substantial benefit of its deferred accounting and remaining lives extension request without thorough review of Xcel's underlying request.

A general rate case is the mechanism that the Commission uses to ensure reasonable and cost-based rates and they provide for a broad review of the representative costs of a utility's rate base and expenses. This broad and thorough review is important because once rates are set, they are considered reasonable until they are changed in the next rate case.

In reviewing rate cases prior to filing direct testimony, the Department's analysts undertake an in-depth review of a utility's filing. This review is necessary to ensure that Minnesotans are charged just and reasonable rates for their electric and gas services and, without it, it is difficult to ensure that utilities are not overcharging ratepayers.

The Department enters all rate cases in the spirit of resolving issues and is committed to engaging in settlement discussions with Xcel following the Department's in-depth rate case review and submission of direct testimony. The Department has found the Office of Administrative Hearings' mediation services to be invaluable in achieving recent settlements and is committed to initiating mediation with the Company and other intervenors pursuant to Minn. R. 1400.5950 following the submission of intervenor direct testimony. The Department believes that pursuing settlement following its in-depth review better protects ratepayers while managing time and rate case expense than Xcel's stay-out proposal.

Based on the above, the Department recommended that Xcel's Petition be denied and that interested parties be directed to proceed with the general rate case. The Department, however, does not believe it's necessary to fully litigate the rate case. After submitting its direct testimony, the Department is committed to engaging Xcel and other interested parties in

⁵ Docket No. E002/GR-15-826.

⁶ Dockets Nos. E002/M-20-743, E002/M-19-688.

mediation to resolve the case. In the Department’s view, this process would better protect the public interest while still avoiding unnecessary delay and rate case expense.

Finally, the Department does not believe Xcel’s Stay Out Proposal meets the standards that are required to support approval of the Company’s requested deferred accounting.

1. Financial Considerations and Other Issues

In the event the Commission disagrees with Department’s recommendation to deny the Petition, the Department highlights the following financial considerations and other issues.

a. Xcel’s Proposed Deferral (Stay-Out) Compared to Historical Rate Case Outcomes

The Department pointed out that Xcel’s proposed 2022 deferral request of \$31.6 million represents approximately 89% of its proposed 2022 test-year rate request of \$35.6 million and noted that, as shown in Table 2, this is significantly higher than the rate increases approved by the Commission in Xcel’s last three natural gas rate cases.

Table 3 – Comparison of Xcel’s Initial General Rate Requests Compared to Commission Approved Amounts (\$ in Millions)

Rate Case Docket No.	Initial Request	Final Rates (millions)	% Increase
G-002/GR-09-1153	\$16.2	\$7.3	45%
G-002/GR-06-1429	\$18.5	\$14.4	78%
G-002/GR-04-1511	\$9.9	\$5.8	59%

2. Xcel’s Peaking Plants

In the Commission’s investigation⁷ into the impact of severe weather in February 2021, the Department became aware that several of Xcel’s natural gas peaking plants (Wescott, Sibley, and Maplewood) were unavailable during the February 2021 event. Thus, in the event the Proposal is approved, the Department noted that, until the Company’s next rate case, it will be unable to address the used and usefulness of Xcel’s peaking plants that are currently included in base rates, but were unavailable during the February 2021 event.

3. Deferred Depreciation Expense and Xcel’s Peaking Plants

Given the fact that these peaking plants were unavailable during the February 2021 event, the Department questioned the reasonableness of life extensions for these plants and whether Xcel’s plans for further investment in these plants is warranted. The Department noted that, while extending the lives of these plants may reduce depreciation expense and the revenue requirements Xcel is seeking to defer in this proceeding or recover in its pending rate case, it

⁷ Docket No. G-999/CI-21-135.

increases utility profits over time by having the asset remain longer in rate base where it earns a return and results in higher rates for future customers.

The Department also noted that the Commission's 19-723 Order, ordering paragraph 2 stated:

The Commission hereby denies Xcel's request to extend the remaining life of the Wescott LNG Plant until the status and prudence of the plant can be reviewed in Xcel's upcoming natural gas general rate case.

Based on the unavailability of Xcel's peaking plants during the February event and the fact that the Commission denied Xcel's request to extend the Wescott LNG Plant to allow for review in an upcoming gas general rate case, the Department concluded that it would be unreasonable to extend the depreciation lives without the contemplated review of the prudence of the capital investments needed to justify these extensions.

C. Office of Attorney General – Comments

The OAG stated that it cannot support the Petition. In addition to the inherent disparity of information present between utilities and stakeholders, the timing of the comments on the Petition has prevented stakeholders from the opportunity to engage in discovery. Although, at face value, the Petition may have the appearance of benefitting ratepayers in the short term – by providing a seemingly “better deal” than compared to the Company's interim rate proposal – the longer-term effects of settlement are opaque. The public interest will not be furthered by the Commission “approving” a Stay-Out without meaningful analysis conducted by staff, consumer advocates, and other stakeholders.

D. Suburban Rate Authority – Comments

The SRA stated that, cognizant of the impact of the combined rate cases, impending January 1, 2022 interim rates, and the ongoing recovery of February 2021 incurred “extraordinary gas prices”, the Proposal is an appropriate Xcel-created option for customer “rate shock” mitigation.

Due to the deferral of bill increases while consumers are faced with the recovery of costs from the February Market Event, predicted higher natural gas market prices in the upcoming heating season and the near certainty of a substantial interim rate increase on January 1, 2022 to the Xcel Energy electric customers on Xcel's electric rate case seeking \$677 million in rate increases from 2022-2024,⁸ the SRA supports approval of the Petition. Further, Xcel's Petition carries both maintenance of current rates into 2022 and the opportunity to review and challenge the prudence of the \$31.6 million in deferred costs in the subsequent Xcel Gas rate case, anticipated in November 2022.

⁸ Docket No. E-002/GR-21-630.

Regarding the Wescott, Sibley, and Maplewood peaking plants, the SRA stated that, while the it appreciates the reduction in depreciation expense, it assumes that the Commission's approval of the revised depreciation expense for these assets is subject to future adjustment based on the prudence findings regarding the operation and availability of these assets during the February Market Event under review of the Commission and Office of Administrative Hearings in the current contested case.⁹

E. Energy Cents Coalition – Comments

ECC noted that, previously, it has supported similar proposals brought forward by the Company, most recently in the electric rate case stay-out approved by the Commission in 2020.¹⁰ Considering the persistent economic effects of the ongoing COVID-19 pandemic and the highly variable levels of financial recovery that consumers have been able to achieve in the past year, ECC believes that maintaining base rates at 2010 approved test year levels would provide relief for ratepayers. Protecting ratepayers from increased natural gas prices is particularly important given the projected increase in the commodity cost of gas and rising prices for food and other essential items.

ECC supports the Proposal brought primarily because \$31.6 million in projected 2022 incremental depreciation, distribution O&M, and property tax expenses are deferred. Furthermore, Proposal will provide stakeholders with the opportunity to closely examine Xcel's actual expenditures (incremental depreciation, distribution O&M, and property tax expenses for the year 2022) in its next rate case.

F. Citizens Utility Board of Minnesota – Comments

CUB understands that Xcel's Proposal is to withdraw its pending gas rate case and to not file a new general rate case for a minimum of one year in exchange for deferral of the above-referenced expenses. As an advocate for utility consumers, CUB is generally hesitant about the deferral of costs for future recovery. As parties have previously noted, "[d]eferred accounting is

⁹ Order Granting Variances and Authorizing Modified Cost Recovery Subject to Prudence Review, and Notice of and Order for Hearing at p. 22, ¶ 23 D v. (Aug. 30, 2021); In the Matter of the Petitions for Recovery of Certain Gas Costs, OAH Docket No. 71-2500-37763; In the Matter of a Commission Investigation into the Impact of Severe Weather in February 2021 on Impacted Minnesota Natural Gas Utilities and Customers, MPUC Docket No. G-999/CI-21-135; In the Matter of the Petition of CenterPoint Energy for Approval of a Recovery Process for Cost Impacts Due to February Extreme Gas Market Conditions, MPUC Docket No. G-008/M-21-138; In the Matter of the Petition by Great Plains Natural Gas Co., a Division of Montana-Dakota Utilities Co., for Approval of Rule Variances to Recover High Natural Gas Costs from February 2021, MPUC Docket No. G-004/M-21-235; In the Matter of the Petition of Northern States Power Company d/b/a Xcel Energy to Recover February 2021 Natural Gas Costs, MPUC Docket No. G-002/CI-21-610; In the Matter of the Petition of Minnesota Energy Resources Corporation for Approval of a Recovery Process for Cost Impacts Due to February Extreme Gas Market Conditions, MPUC Docket No. G-011/CI-21-611.

¹⁰ Docket Nos. E-002/GR-20-723, E-002/M-20-743.

special accounting treatment that is an exception to balanced and fair ratemaking.”¹¹ The Department recently described this exception as follows:

The Commission authorizes rates to allow a utility a reasonable opportunity to recover from consumers representative costs of providing utility service. Those rates remain in effect until the utility files a new rate case. Until then, utilities are not entitled to dollar-for-dollar recovery of all actual costs between rate cases; similarly, ratepayers receive no benefit when a utility reduces costs between rate cases. Instead, utilities are expected to make reasonable decisions to ensure that the funds they receive from consumers are spent prudently. Thus, normal ratemaking and allowing utilities to recover representative costs set in rate cases is the Commission’s primary tool to ensure that utilities act in a prudent manner and that rates are just and reasonable, as required by Minn. Stat. § 216B.03.

Additionally, allowing utilities to defer costs can also risk subtly shifting the burden of proving reasonable rates from the Company to other parties.¹²

As noted, it is not clear that Xcel’s proposed deferrals meet a strict reading of these criteria. However, CUB is persuaded that the deferrals, under the unique current circumstances, are in the public interest. CUB believes that it is especially important to mitigate any rate increases in the immediate term. If Xcel’s stay-out is not approved, ratepayers will face a 4.9% interim rate increase beginning January 1, 2022. As of the end of September, more than 13% of Xcel’s residential customers were already in arrears.¹³ Even if there is no increase to base rates, consumers will feel the effects of high natural gas prices this winter. The U.S. Energy Information Administration projects Midwest natural gas prices to be 45% higher this winter than last winter.¹⁴ On top of current high commodity prices, Xcel gas customers will be paying the extraordinary costs of February gas market event on their natural gas bills into 2023. Additionally, many Xcel gas customers will see rising electricity costs, with general rate cases filed by Xcel’s electric utility and Minnesota Power.¹⁵ Finally, consumers are facing rising costs for housing, food, and many other areas of the family budget.¹⁶ In addition, as the Company noted, the Commission, state agencies, and intervenors face significant workloads currently

¹¹ Department of Commerce Comments in Docket No. E015/M-21-349 (July 26, 2021) at 3.

¹² See, for example, Department of Commerce Reply Comments in Docket Nos. E002/M-21-101, E002/CI-17-401 (September 9, 2021), at 8.

¹³ Xcel Compliance filing (October 19, 2021), Docket 20-375. This figure includes Xcel’s electric and gas customers.

¹⁴ U.S. Energy Information Administration, Winter Fuels Outlook, October 2021.
https://www.eia.gov/outlooks/steo/special/winter/2021_winter_fuels.pdf.

¹⁵ Dockets No. E-002/GR-21-630 and E-015/GR-21-335.

¹⁶ U.S. News and World Report, “Inflation Rises in September, Fueled by Energy, Food and Housing” (October 13, 2021).

with other “critically important” dockets; allowing this rate case to be withdrawn would create “more time and space for their consideration.”

For these reasons, CUB supports Xcel’s Petition.

G. Xcel Energy – Reply Comments

Xcel affirmed that, as in all rate proceedings, under Minn. Stat. § 216B.16, subd. 4, the Company bears the burden of proving the rate change in its next rate case is just and reasonable.

Regarding the Department’s and the OAG’s concerns regarding the need for additional time to review the Proposal, Xcel stated that it had reached out to both the Department and OAG to discuss the Proposal and provide them any additional information they may need and added that the Company is committed to working with these agencies, and we will supplement these Comments if, after meeting with parties, it would be helpful to clarify Xcel’s positions.

H. Suburban Rate Authority – Reply Comments

Regarding the Westcott, Sibley and Maplewood plants issue raised by the Department, the SRA stated it is unclear how Xcel’s Proposal is consistent 19-723 Order. With Commission’s expressed need to maintain the status quo of these peaking plants pending the outcome of the contested case, extending their remaining lives now appears contrary to a recent, relevant Commission Order.

The SRA stated that it remains hopeful that a modified Proposal maintaining base rates for Xcel Gas customers for 2022 can be approved.

I. Xcel Energy – Supplemental Reply Comments

Xcel addressed the Wescott, Sibley, and Maplewood plants issue by stating that its Proposal was not intended to revisit 19-723 Order’s decision. Xcel continues to believe it is appropriate for the Commission to reassess and set the lives of the Wescott plant and the other peaking plants in its natural gas general rate case, whether that is the pending case or a future case. Xcel’s goal was to have the proposed depreciation expense deferral align with the depreciation expenses included in the pending case, which included a proposed life extension based on planned work that has been and will be done at the plants.

That said, Xcel does not believe extending the lives of these plants is necessary for the Commission to approve the Proposal. The Commission could choose to stay consistent with the M-19-723 Order regarding the Wescott facility and extend this decision to all of the peaking facilities. As shown in Table 4, the effect of not changing the depreciable life of these plants would be a \$12.9 million increase in the overall deferral.

Table 4 – 2022 Deferral Comparison (Dollars in Thousands)

Wescott, Sibley and Maplewood Depreciation with Life Extension	\$4,614
Wescott, Sibley and Maplewood Depreciation without Life Extension	\$17,542
Increased Depreciation and Deferral	\$12,928
Total Depreciation Deferral with Life Extension	\$14,703
Total Depreciation Deferral without Life Extension	\$27,631
Total Deferral Request with Life Extension	\$31,643
Total Deferral Request without Life Extension	\$44,571

Xcel does not believe that increasing the overall deferral to \$44.5 million would have an impact on the Proposal's merits. An increased deferral amount would not benefit the Company, because leaving the remaining lives of the plants as they currently stand would result in the Company recognizing an incremental \$12.9 million expense in 2022 that is not presently recovered in rates. It also would not harm customers, whose base rates would remain the same in 2022 as they are today. Further, the Commission will retain complete control over the ultimate determination of the prudence of these expenses, any resulting recovery method, and the depreciable lives of our peaking plants. For example, should the Commission, in a future proceeding, determine that some or all of the expenses relating to the plants were prudently incurred and that a life extension were appropriate, the deferred amounts could be amortized over an extended period of time, which could align with the extended lives of the plants themselves. And, the Commission need not make a determination regarding amortization in the instant proceeding; that can be left until a future rate case when the impacts will be better understood.

IV. Staff Analysis

Xcel's initial deferral request of \$31.643 million is 88.8% of the \$35.629 million base rates increase and 127.2% (or 27.2% higher) of the \$24.876 million interim rate increase requested in its rate case. However, in response to the SRA's comments, Xcel indicated that, absent to changes in the Wescott, Sibley, and Maplewood depreciable lives, the deferral request of \$31.643 million would increase to \$44.571 million. The revised deferral amount is 25.0% higher than the base rates increase and 79.2% higher than the interim rate increase requested in its rate case.

Staff points out that, in addition to concerns raised in the Gas Investigation, the Wescott, Sibley, and Maplewood issue was highly contested in docket 19-723. Approving Xcel's deferral, as filed, would essentially require the Commission to reverse its September 2, 2021 Order in that docket. Otherwise, the deferral request would increase to an amount that exceeds both the rate base increase and the interim rate increase sought in Docket No. G-002/GR-21-678. Staff believes that these facts, plus the twelve-year gap between rate cases, makes approval of Xcel's Petition a more challenging task.

V. Decision Alternatives

Petition

1. Approve Xcel's Petition to defer 2022 depreciation expense, distribution O&M expense and property tax expense. (Xcel, ECC, CUB)
2. Do not approve Xcel's Petition to defer 2022 depreciation expense, distribution O&M expense and property tax expense. (DOC, OAG)

Depreciation Expense Deferral Adjustments

3. Approve Xcel's request to extend the depreciable lives for the Wescott, Sibley, and Maplewood facilities. (Xcel)
4. Do not approve Xcel's request to extend the depreciable lives for the Wescott, Sibley, and Maplewood facilities.
5. Approve Xcel's request to update the remaining lives and depreciation rates for Transmission, Distribution, and General (TD&G) functional classes of plant assets, currently pending in Docket No. E,G-002/D-21-584. (Xcel)
6. Do not approve Xcel's request to update the remaining lives and depreciation rates for Transmission, Distribution, and General (TD&G) functional classes of plant assets, currently pending in Docket No. E,G-002/D-21-584.