

May 2, 2016

PUBLIC DOCUMENT

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

RE: **PUBLIC Comments of the Minnesota Department of Commerce, Division of Energy Resources**  
Docket No. E002/M-15-805

Dear Mr. Wolf:

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

Revised Petition and Supplement of Northern States Power Company d/b/a Xcel Energy (Xcel or the Company) for Approval of the Renewable Energy Standard Rider, RES Adjustment Factor, and the 2015 RES True-up Report.

The Revised Petition was filed on September 29, 2015 and the Supplement was filed on February 2, 2016 by:

Amy Fredregill  
Resource Planning and Strategy Manager  
Xcel Energy  
414 Nicollet Mall, 7<sup>th</sup> Floor  
Minneapolis, MN 55401

The Department **requests that Xcel provide additional information in reply comments.** The Department will offer additional comments and recommendations in subsequent response comments after it has reviewed the additional information. The Department is available to answer any questions that the Minnesota Public Utilities Commission may have in this matter.

Sincerely,

/s/ SACHIN SHAH  
Rates Analyst

SS/It

## BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

PUBLIC COMMENTS OF THE  
MINNESOTA DEPARTMENT OF COMMERCE  
DIVISION OF ENERGY RESOURCES

DOCKET No. E002/M-15-805

**I. BACKGROUND**

The Minnesota Public Utilities Commission's (Commission) October 23, 2009 Order on pages 28 to 29 in the 2008 electric rate case, Docket No. E002/GR-08-1065, approved an annual true-up mechanism to enable Northern States Power Company, d/b/a Xcel Energy (Xcel or the Company) to recover the difference between the projected production tax credits (PTCs) recovered through base rates and the actual PTCs received, which are based on actual production levels. In the Company's subsequent electric rate case (Docket No. E002/GR-10-971), the Company proposed to continue to use the Renewable Energy Standard (RES) Rider true-up mechanism to true-up the recovery of the estimates of PTCs included in base rates. The RES Rider is designed to allow for the automatic adjustment of charges to recover prudently incurred investments, expenses, or costs associated with facilities constructed, owned, or operated by a utility to satisfy the RES Statute,<sup>1</sup> provided those facilities were previously approved by the Commission.

Currently, the RES Rider contains only those costs associated with the true-up of PTCs related to energy production at Company-owned wind farms.<sup>2</sup> A true-up is necessary since the level of PTCs associated with wind facilities cannot be precisely predicted.

The Commission's November 20, 2014 Order in Docket No. E002/M-14-733 (14-733) approved the RES Rider Adjustment Factor's reduction to zero percent effective January 1, 2015. The Commission's June 1, 2015 Order in Docket No. E002/M-15-304 (15-304) approved the factor's reduction to zero percent effective August 1, 2015. The rate currently remains at 0.00 percent.

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<sup>1</sup> Minn. Stat. § 216B.1691

<sup>2</sup> The costs associated with the Grand Meadow Wind Farm and the Nobles Wind Farm were approved in Xcel's 2010 RES Rider Petition (Docket No. E002/M-10-1066) and moved to base rates during the Company's 2010 electric rate case (Docket No. E002/GR-10-971).

## II. THE COMPANY'S PROPOSAL

On September 29, 2015 and February 2, 2016, Xcel filed a revised petition<sup>3</sup> and supplement, respectively, for approval of the RES Rider true-up report for 2015, the 2016 RES Rider revenue requirements of \$17.3 million, and the Company's proposed revised RES Rider Adjustment Factors. The RES Rider Adjustment Factors proposed in the *Revised Petition* and *Supplement* were calculated based on the difference between 2015 actual, forecasted and test-year PTCs,<sup>4</sup> and include carryover PTC balances from 2012, 2013 and 2014. Xcel applied the Xcel Energy/Northern States Power Company-Wisconsin Interchange Agreement demand allocator and the Minnesota Jurisdictional energy allocator in its calculations.

In the *Revised Petition*, Xcel also requested to include capital costs and expenses associated with the Courtenay Wind project and to include the proceeds from a recent sale of RECs. In its *Revised Petition*, Xcel estimated that the effect of the rate change for a typical residential electric customer using 750 kilowatt hours (kWh) per month would be an increase of a \$0.55 per month.

Xcel proposed a revised RES Adjustment Factor of 0.822 percent to be reflected in the Resource Adjustment included in the Company's retail electric billing rates and for it to be implemented on January 1, 2016.

Table 1 below summarizes the various components of the 2016 RES Rider revenue requirements.

**Table 1: RES Rider Revenue Requirements**

Courtenay Wind	\$14,877,961
PTCs	\$(43,433)
O&M	\$871,630
Transmission costs	\$200,778
Total Courtenay Wind Costs	\$15,906,937
	[TRADE SECRET DATA HAS BEEN
REC Sales Proceeds Credit to Customers	EXCISED]
ADIT Prorate	\$38,754
	[TRADE SECRET DATA HAS BEEN
2015 Carryover Balance	EXCISED]
2016 RES Rider Revenue Requirement	\$17,283,149

<sup>3</sup> Xcel filed its initial petition on September 8, 2015; however the Department's analysis is based on the September 29, 2015 *Revised Petition* and February 2, 2016 *Supplement*.

<sup>4</sup> The level of 2015 test year PTCs was determined in Docket No. E002/GR-13-868 and is reflected in base rates.

### III. THE DEPARTMENT'S ANALYSIS

#### A. RES ELIGIBILITY OF THE COURTENAY WIND FARM PROJECT

In its *Revised Petition*, the Company stated the following:

The Courtenay Wind Farm is a 200 MW wind resource in Stutsman County, North Dakota that the Company identified for acquisition through its February 2013 Request for Proposals (RFP) for additional wind resources. In its Order dated December 13, 2013, the Commission approved a Power Purchase Agreement (PPA) allowing the Company to purchase the output of the Courtenay Project.<sup>2</sup>

On April 30, 2015, the Company filed a Petition seeking Commission approval to develop, own, and operate the Courtenay Wind Farm.<sup>3</sup> The Commission approved the Company's proposal pursuant to Minn. Statute § 216B.1645, subd 2a in its Order dated September 2, 2015. The Order also authorizes recovery of the actual, reasonable and prudently incurred costs, not to exceed \$300 million, plus the associated Allowance for Funds Used During Construction (AFUDC) of the Courtenay Wind Farm. Therefore, we have included the costs and expenses associated with the Courtenay Wind Farm in our calculation of the 2016 RES Rider revenue requirement. Construction on the Courtenay Wind Farm began recently with the project expected to be in-service in December 2016 in order to be eligible for Production Tax Credits (PTCs) before the scheduled PTC expiration date.

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<sup>2</sup> Docket No. E002/M-13-603

<sup>3</sup> Docket No. E002/M-15-401

On September 2, 2015, in Docket 15-401, the Commission issued its *Order Approving Acquisition Under Minn. § 216B.1645 Subd. 2a and Authorizing Cost Recovery*. The Commission had the following ordering points:

1. The Commission approves Xcel's proposal to purchase and develop the Courtenay Project pursuant to Minn. Stat. § 216B.1645, subd. 2a.
2. The Commission authorizes cost recovery for the Courtenay Project based on the actual, reasonable, and prudently incurred project costs, not to exceed \$300 million, plus the associated Allowance for Funds Used During Construction.
3. The Commission defers the disputed issue regarding the allocation of the North Dakota Investment Tax Credit to the

Company's initial, comprehensive cost-recovery filing including Courtenay costs, whether that is its next rate case or its next annual Renewable Energy Standards Rider filing.

4. The Company shall include in the initial filing in its next rate case both testimony and schedules disclosing, in detail and by project, all North Dakota Investment Tax Credits and all other non-Minnesota state tax credits earned or held by the Company as a result of its investments and activity.
5. This order shall become effective immediately.

The Company noted in its *Revised Petition* that the RES Rider currently contains not only those costs associated with the true-up of actual and forecasted 2015 PTCs related to energy production at Company-owned wind farms, but also the 2016 RES Rider revenue requirements of \$17.3 million, an RES Rider tracker account true-up for manually billed revenue, and the REC Sales credit to customers. The proposed RES Rider Adjustment Factor also includes carryover PTC balances from 2012, 2013 and 2014 reflecting true-ups of revenue and collections.<sup>5</sup> Xcel stated it also included the supporting tax documentation of the 2014 PTC.

The Company proposed a revised RES Rider Adjustment Factor of 0.822 percent to be implemented on January 1, 2016.

#### **B. REC SALES CREDIT**

On May 28, 2015 the Company filed a request for approval to share proceeds from the sale of RECs with customers in Docket No. E002/M-15-515 (15-515). In its *Revised Petition*, the Company stated the following:

The Company is required to return the proceeds from REC sale transactions to ratepayers through the RES Rider mechanism, but is also authorized to file a request to share in the net proceeds from such a sale of RECs.<sup>4</sup> The Company completed a sale of RECs in the spring of 2015 and subsequently filed a request to share the REC sales proceeds with customers on May 28, 2015.<sup>5</sup>

On August 26, 2015, the Commission issued its Order in Docket No. E002/M-15-515 (REC Sales Order) approving the Company's request to share the net proceeds from the REC sale with modifications. We have calculated the amount to be credited to customers through the RES Rider based on the Commission's REC Sales Order and have included that amount

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<sup>5</sup> The true-ups of the revenues reflect the difference between the actual and forecasted PTC's included in the test years in Docket Nos. E002/GR-10-971, E002/GR-12-961 and E002/GR-13-868, respectively. The collections reflect the amount of revenue received by the Company from customers under the RES Rider.



**customers. To determine the appropriate amount of proceeds to be shared, the Commission will require the Company to deduct the REC issuance fee assessed by M-RETS from the proceeds before dividing the profits.<sup>6</sup> [Emphasis added]**

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<sup>6</sup> This issuance fee is recovered from ratepayers in base rates.

In its response to Department Information Request (IR) No.2, included as DOC Attachment 1, the Company described how it determined the REC fees. The Company stated the following:

The Midwest Renewable Energy Tracking System (M-RETS) charges four different categories of fees:

- Subscriptions Fees: Paid annually based on the type of account maintained by the subscriber.
- Issuance Fees: Paid per-Renewable Energy Credit (REC) issued in the M-RETS Registry each calendar year by a given generator registered in the subscriber's account. The Issuance Fee in 2015 was \$0.005/REC issued.
- Retirement Fees: Paid per-REC for each REC retired in an account holder's account in the M-RETS Registry. The Retirement Fee in 2015 was \$0.015/REC retired.
- Import/Export Fees: Paid for any REC transaction occurring between M-RETS and another approved tracking system, applied one time per calendar day for all RECs imported or exported between accounts. The Import/Export Fee in 2015 was \$100/import or export transaction between unique accounts.

For the Company's sale of 20,000 poultry litter RECs from the Fibrominn facility to a North Carolina utility in the spring of 2015, we were assessed two of those fees by M-RETS: an Issuance Fee and an Import/Export fee. The Export Fee in this case was included in an invoice from M-RETS for a larger batch of RECs and was therefore not attributed to the Fibrominn REC sale. Only the Issuance Fee was included in the Company's Revised Petition Attachment A. More information about the sale of these RECs and the Company's proposal to share proceeds from those sales with customers can be found in Docket No. E002/M-15 515.

The Department concludes that Xcel appropriately factored in the correct REC fees in its calculation of the REC sales credit refunded to customers.

### C. REVENUE REQUIREMENTS CALCULATIONS

The Company proposed to allocate costs using the percentage of revenue (interim rates) methodology to refund the revenue requirement. This is done by calculating the percentage decrease necessary to refund the true-up amount, which is based on the quotient of the RES Rider costs over base revenues.<sup>6</sup>

On page 5 and 6 of its *Revised Petition*, the Company stated the following:

We request approval to include \$17.2 million in the RES Rider tracker for 2016. The amount includes:

- costs and expenses associated with the Courtenay Wind Farm;
- the true-up of actual PTCs received in 2015 (through July) as compared to the PTCs included in our 2015 test year;
- a forecast of PTCs for the remainder of 2015 as compared to the PTCs included in our 2015 test year;
- the net balance remaining from the July 2015 refund of the 2014 PTC over-collection;
- a credit accounting for customers' share of proceeds from a sale of RECs in 2015; and
- A RES tracker account true-up for manually billed revenue.

In its February 2, 2016 *Supplement*, the Company stated the following:

The 2016 ADIT adjustment is \$38,754, which results in an increase in the revenue requirement from \$17.244 million to \$17.283 million and an increase in the proposed RES Rider Adjustment Factor from 0.820 percent to 0.822 percent.

RES Rider costs are determined by subtracting forecasted PTCs from actual PTCs. Both actual and forecasted PTCs are allocated to Minnesota customers using allocator mechanisms, as shown on *Revised Petition* Attachment B, page 3, and as further discussed below.

#### 1. Allocations to Other Jurisdictions

Due to the fact that the revenue requirements subject to true-up are only applicable to Minnesota retail customers, the Company must apply allocators to its total costs.

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<sup>6</sup> The calculation excludes fuel costs, riders, and taxes.



The Interchange Agreement Allocator allocates a share of total Xcel-Minnesota costs (for the Minnesota, North Dakota and South Dakota jurisdictions) to Northern States Power Wisconsin (NSPW). This allocator is applied by multiplying total eligible costs by the Company's demand factor under the FERC-approved Interchange Agreement between Xcel and NSPW.

Next, the Jurisdictional Allocator excludes from the Xcel-Minnesota costs the portion of Company costs not related to serving Minnesota retail customers.<sup>7</sup> This allocator is applied by multiplying the Company total by the Minnesota energy allocation factor.

On page 7 of its *Revised Petition*, the Company stated the following:

We have allocated costs incurred in a given year with that same year's allocators to properly align cost causation with cost recovery. The principle of matching a particular year's costs to that year's allocators is consistent with the allocation methodology approved in past RES Rider dockets.<sup>8</sup> The forecasted 2015 and 2016 allocators used in this filing will be consistent with the sales data used in our forthcoming rate case and provided in our sales forecast rate case pre-filing.

While we have calculated the revenue requirements in this Petition using forecasted allocators for 2015 and 2016, we propose to true-up the tracker account to the actual allocators when they become available. The actual allocators used to true-up the tracker will be consistent with the allocators used to allocate variable costs (including PTCs) to the Minnesota jurisdiction in our annual jurisdictional reports filed on May 1 each year.

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<sup>8</sup> The most recent examples are Docket Nos. E002/M-10-1066, E002/M-13-475, E002/M-14-733 and E002/M-15-304.

The calculations used to derive the allocators can be found in the Company's testimony filed in their most recent rate case, Docket No. E002/GR-15-826. The Department reviewed the allocators used in the instant docket to allocate 2015 PTCs to the Minnesota jurisdiction and observes that they are very close to those calculated in the Company's current rate case, which is yet to be fully reviewed.<sup>8</sup> In any event, the Company will true-up the tracker account to the actual allocators as mentioned above. Thus, with this true-up caveat, the Department concludes that it is appropriate to apply the above allocators to the true-up calculations at this time.

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<sup>7</sup> This calculation allocates a share of the Xcel-Minnesota costs to the North Dakota and South Dakota retail jurisdictions.

<sup>8</sup> In the Company's filing in Docket No. E002/GR-15-826, Volume 4A, Test Year Workpapers, Section III. Rate Base (Plant), Tab P9., Other Rate Base, Page P9-3, and Section VII, Budget Allocators, Tab B2, Energy (Sales) & Demand, Page B2-6, the Energy Allocator is shown as 87.3278% whereas in the instant Petition, the Company shows 87.3422%.

## 2. PTC Forecast

On page 8 of its *Revised Petition*, the Company stated the following:

We estimate PTC benefits based on expected energy production. The Grand Meadow and Nobles wind projects are currently eligible for PTCs. The Border Winds and Pleasant Valley projects will be eligible for PTCs when they go into service in 2015, and Courtenay Wind will be eligible for PTCs when it goes into service in 2016.

The 2015 estimated PTC levels are a part of the base rate levels that were approved by the Commission in its May 8, 2015 Order in Docket No. E002/GR-13-868 and thus are included in base rates in our most recent electric rate case.<sup>9</sup> The PTC level was calculated by multiplying the expected kWh generated by the effective per kWh credit at that time. This filing trues up the PTCs based on actual wind generation for January through July 2015 to the PTCs included in base rates. We include the forecasted PTCs for July through December 2015 which will be trued up in our next RES Rider filing. At that time we will also true up the January through July 2015 PTCs for the actual 2015 jurisdictional energy allocator.

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<sup>9</sup> Docket No. E002/GR-13-868

PTCs are awarded to the Company-owned wind farms based on total actual energy production. Because energy production at wind farms is variable, expected PTCs must be forecast based on expected energy production. According to the *Revised Petition*, the Commission approved<sup>9</sup> the base rate levels that include the estimated PTC levels and thus are included in base rates established in the Company's 2015 Step test year electric rate case (Docket No. E002/GR-13-868). Xcel forecasted PTCs by multiplying expected kWh generated by the effective per kWh credit at the time. The *Revised Petition* and Supplement includes a true-up of the forecasted 2015 PTCs with actual PTCs generated in the first half of 2015.

## 3. Actual PTCs

Actual PTCs are calculated based on actual production at the Company-owned wind farms in kWhs, which is then multiplied by the PTC value per kWh. This calculation is shown on pages 2 through 4 of Attachment B to the *Revised Petition*.

Once actual PTCs have been calculated, and allocators have been applied to both actual and forecasted PTCs, the forecasted PTC's are subtracted from actuals. One final calculation is performed on the resulting figure to adjust for the Company's composite tax

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<sup>9</sup> May 8, 2015 Findings of Fact, Conclusions, and Order in Docket No. E002/GR-13-868.

rate. The resulting figure from this final calculation is the revenue requirement,<sup>10</sup> and the true-up amount for the year.

The Department reviewed the Company's calculations for the PTC true-up as provided in the *Revised Petition* in Attachment B, pages 3 and 4. The Department was able to tie the total Company PTC amounts on Attachment B of the *Revised Petition* to the amounts included for the 2015 Step test year in the Company's most recent rate case (E002/GR-13-868).<sup>11</sup> In prior RES true-up dockets<sup>12</sup> the Department was able to obtain relevant tax documentation and was able to tie the reported PTC amounts to the PTCs reported in the tax documents because the Department filed comments in those matters after the information became available. Given that the July through December 2015 PTC's will be true'd up in the next Rider filing and the Company will also true up the January through July 2015 PTCs for the actual 2015 jurisdictional energy allocator, and the fact that the 2015 tax forms are not yet available, the Department is unable to verify the actual PTC amounts reported by the Company. Thus the Department recommends that the Commission require Xcel to file copies of all the relevant 2015 tax forms supporting its 2015 actual PTC figures in the Company's next RES true-up filing.

#### 4. Compliance from previous RES Rider Filing in Docket No. E002-M-15-304

As to the true-up from last year's RES, the Department made a similar statement regarding reporting on actual information in its April 29, 2015 Comments in the above referenced docket:

The Department also attempted to compare the PTC amounts reported on page 3 of Attachment A to the actuals that are reported in its 2014 tax forms. However, those forms are not yet available, as they are not scheduled to be filed until later this year.

Therefore, the Department was unable to verify the actual PTC amounts reported by the Company for 2014. In the two most recent RES true-up dockets<sup>9</sup> the Department was able to obtain relevant tax documentation and was able to tie the reported PTC amounts to the PTCs reported in the tax documents because the Department filed comments in those matters after the information became available. Since Xcel's proposal involves a refund to customers, the Department concludes that a decision in this matter should not be delayed for the purposes of 2014 PTC validation.<sup>13</sup> However, the Department

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<sup>10</sup> Revenues would be subtracted from the revenue requirement to calculate the final amount as shown in Attachment B of the Revised Petition.

<sup>11</sup> Docket No. E002/GR13-868, Volume 4A, 5 of 9, Test Year Workpapers, Tab P8, Tax Credits, Pages P8-2 and in the Company's response to DOC IR Nos. 160 and 161.

<sup>12</sup> Docket Nos. E002/M-14-733 and E002/M-13-475

<sup>13</sup> Xcel files form 8835, which reports Renewable Electricity, Refined Coal, and Indian Coal Production Credit, in September.

recommends [that] Xcel be required to file copies of the relevant 2014 tax forms supporting its 2014 actual PTC figure in the Company's 2015 RES true-up filing.

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9 Docket Nos. E002/M-14-733 and E002/M-13-475

10 Xcel files form 8835, which reports Renewable Electricity...Production Credit, in September of each year.

Xcel states that the 2014 tax documentation became available in early September and it included it as TRADE SECRET Attachment M in the Revised Petition. The Department observes that there is a slight difference between the PTCs reported in the tax documentation and those reported in Docket No. E002/M-15-304. Specifically, the Company reported **[TRADE SECRET DATA HAS BEEN EXCISED]** in PTCs for wind in the tax documentation, whereas in its initial filing in Docket No. E002/M-15-304, Attachment A, page 3 of 4, the Company reported \$25,451,184 in actual PTC's in 2014. While the difference is minimal in terms of impact on the RES adjustment factor, the Department recommends that the higher level be credited to ratepayers. The Company complied with the Commission's June 1, 2015 Order in Docket No. E002/M-15-304.

#### 5. *Manual Billing Revenue Adjustment*

On page 8 of the Company's *Revised Petition*, Xcel stated the following:

As we described in our May 26, 2015 Reply Comments in Docket No. G002/M-15-194 (State Energy Policy Rider), we discovered in early 2015 that the rider adjustment factors are applied to Interdepartmental Sales through a manual billing process. The Interdepartmental Sales are included in the sales forecast to calculate the RES adjustment factor, and the RES adjustment factor has been correctly applied to Interdepartmental billed sales. However, because of the manual nature of the billing process, the revenues collected under the RES adjustment factor for Interdepartmental Sales had been inadvertently excluded from total actual revenues reported in the RES tracker prior to March 2015 when we made the tracker adjustment.

We have made a one-time adjustment of **[TRADE SECRET DATA HAS BEEN EXCISED]** to correct for the underreported revenues in our RES tracker. The adjustment is shown in Table 1 and in the RES tracker.<sup>10</sup>

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<sup>10</sup> We [Xcel] made a similar adjustment in the Transmission Cost Recovery (TCR) Tracker in our June 30, 2015 compliance filing in Docket No. E002/M-14-852. See Footnote 1 and Attachment A, pages 1 and 3 of that filing.

The Department appreciates the Company's correction referenced above. The Department recommends that in its future RES Rider filings, the Company provide detailed revenue collections by customer class in addition to the summary it provides.

#### 6. *CWIP and AFUDC*

Xcel's revenue requirement calculations include a current return on capital expenditures on the Construction Work in Progress (CWIP) balance in lieu of future recovery of AFUDC.<sup>14</sup> The base for the current return is the cumulative CWIP balance for the Courtenay project per Xcel's requested eligibility date of September 1, 2015. The beginning CWIP balance includes AFUDC incurred prior to the eligibility date. After that date, the Minnesota jurisdictional portion of costs does not include AFUDC, and a current return is calculated on the CWIP balance. Consistent with Minn. Stat. §216B.1645, Subd. 2a(2), the costs included in this adjustment mechanism are not to be recovered from customers under any other mechanism.

According to Xcel, other jurisdictions affected by these projects do not apply the same ratemaking treatment of CWIP as provided in Minnesota. Xcel stated that it calculates AFUDC and removes the amount associated with the Minnesota jurisdiction. This offset reduces the amount of AFUDC, leaving only the portion that is allocated to the non-Minnesota jurisdictions for ratemaking. The Department recommends that Xcel, in its *Reply Comments* clarify that Minnesota is not being charged for any additional AFUDC attributable to any state after the eligibility date.

#### 7. *Rate of Return*

Xcel used the 2015 Step rates of return approved in their last rate case in Docket No. E002/GR-13-868, to determine the return on CWIP and rate base. On page 9 of its *Revised Petition*, Xcel stated the following:

We used the 2015 Step returns approved in our most recent state of Minnesota electric rate case to determine the return on CWIP and rate base. Specific components include a 7.37 percent overall rate of return, a 9.72 percent return on equity and an equity ratio of 52.50 percent. Allowable costs include the overall rate of return on investments, O&M expenses, property taxes, current and deferred taxes, and book depreciation.

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Footnote omitted.

Because Xcel used the currently approved cost of capital components, the Department concludes that Xcel's treatment of return on CWIP is reasonable.

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<sup>14</sup> As indicated in the quote above from Xcel, AFUDC stands for Allowance for Funds Used During Construction.

### 8. *Depreciation*

The Company stated that the remaining life assumptions used in this filing for depreciation calculations are consistent with the most recently approved remaining life filing (Docket No. E,G002/D-14-181). Xcel did not propose or discuss the expected remaining lives of new wind production facilities in that docket. The Company also noted that its most recent petition to update remaining lives was pending in Docket No. E,G002/D-15-46. After Xcel filed its *Revised Petition* and before it filed its *Supplement*, the Commission issued its *ORDER SETTING DEPRECIATION LIVES AND SALVAGE RATES, ALLOWING REALLOCATION OF SPECIFIC DEPRECIATION RESERVES, AND SETTING EFFECTIVE DATE* on November 13, 2015 in Docket No. E,G002/D-15-46. The Company also stated the following on pages 9-10 of its *Revised Petition* as follows:

The Company is proposing a depreciable life assumption of 25 years for the Courtenay Wind Farm as that is the standard depreciation the Company assigns to wind assets. If any changes are made to the Courtenay Wind Farm remaining life in future Commission Orders, those changes will be reflected in future filings.

Given the fact that the 25-year life is consistent with the manufacturer's estimated life of the specific model turbine selected for the Courtenay Project, and that a 25-year life is consistent with the initial remaining lives set for other Company-owned wind farms, the Department concludes that Xcel's estimated 25-year life for the Courtenay Project appears reasonable.

### 9. *Internal Labor Removal*

Xcel stated that it had excluded the internal labor costs from the Courtenay project for all years for which the project is under construction, in the amount of \$4,023,424. The Department concludes that Xcel's removal of internal labor costs appears reasonable.

### 10. *Accumulated Deferred Income Taxes (ADIT)*

In its *Revised Petition*, on page 10 Xcel stated the following:

The Company is assessing its calculation of the plant related Accumulated Deferred Income Taxes offset to rate base to assure it is calculated in accordance with the proration formula in IRS regulation section 1.167(1)-1(h)(6). No estimates of the potential impact, if any, to the 2016 estimated annual revenue requirements are known at this time.

In its February 2, 2016 *Supplement*, citing a technical description of the issue in its current rate case (Docket No. E002/GR-15-826, Exhibit \_\_\_ (LHP-1), pages 53-56), Xcel stated the following on its cover page:

On page 10 of our September 29, 2015 Second Revised Petition, we discussed the need to assess the calculation of the plant-related Accumulated Deferred Income Taxes (ADIT) offset to rate base. This supplement adjusts the 2016 revenue requirement calculation to include the plant related ADIT in accordance with the proration formula in IRS regulation Section 1.167(1)-1(h)(6). We have included Attachment N as a new attachment showing the ADIT calculation. (Footnote omitted)

With regards to a similar issue regarding ADIT, in the Department's January 15, 2016 *Response Comments* in Docket No. E017/M-15-719 (15-719), on page 4 the Department stated the following:

The Department provides the following brief responses. First, the Department notes that Xcel Energy addressed this same issue in its Transmission Cost Recovery Rider in Docket No. E002/M-15-891 and its recently filed rate case in Docket No. E002/GR-15-826; the DOC plans to discuss this issue extensively in those dockets. Second, since this petition is a rider, the effect over time should net out since OTP will replace the forecasted pro-rated ADIT balances with actual ADIT balances in its true-up calculation in its next ECR Rider.<sup>1</sup> As a result, OTP's actual revenue requirements will decrease by \$55,707 in its true-up calculation in its next ECR Rider. Finally, despite the \$55,707 impact on OTP's ECR Rider, the Company proposed to keep the current ECR Rider rate in effect. Thus, because the IRS Private Letter Ruling has no effect on rates, it is not necessary to address the issue in this proceeding.

Based on the above, the Department recommends that the Commission approve OTP's 2015 ECR Rider and OTP's proposal to keep the current ECR Rider rate in effect, with the understanding that the Commission's decision in this case does not preclude the Commission from making a different decision on IRS Private Letter Rulings in proceedings that have different facts. This important tax matter will be addressed as appropriate in other proceedings.

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<sup>1</sup> The Department notes there is a significant difference between pro-rating ADIT balances in riders as opposed to rate cases. Riders have subsequent true-up calculations which replace pro-rated ADIT balances with actual ADIT balances. Rate cases do not have a subsequent true-up calculation. As a result, the DOC is more concerned with pro-rated ADIT balances in the context of a rate case.

The Department notes that Xcel did not state in their *Supplement* whether they would replace their forecasted pro-rated ADIT balances with actual non-prorated ADIT balances for true-up purposes in their next RES Rider filing. This point is important as discussed in the Department's April 21, 2016 Comments in Docket No. E002/M-15-891 (Docket 15-891):

...the Department notes that Xcel has taken an aggressive position on this issue in Federal Energy Regulatory Commission (FERC) Docket No. ER16-197-000, where the Company proposed not to replace their forecasted prorated ADIT balances with actual non-prorated ADIT balances in their annual true-up calculations under Attachment O. That is, Xcel proposed to keep the benefits for its shareholders and return none of the benefits to customers. FERC disagreed with Xcel's proposal in their December 2015 Order and directed the Company to revise the proposed Tariff changes to remove reference to the use of an IRS calculation for the annual true-up, and to provide that annual true-up calculations will continue to use the average of the beginning-of-year and end-of-year balances for all ADIT accounts (which are not prorated).<sup>17</sup>

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<sup>17</sup> Per Midcontinent Independent System Operator, Inc. and the Certain MISO Transmission Owners Compliance Filing Revising Attachment O Formula Rates dated January 29, 2016 in Docket No. ER16-197-001.

The Department concluded the following in Docket 15-891:

Based on our review of IRS Section 1.167(l)(h)(6), the Department concludes that the ADIT issue is simply a timing issue. Once actual non-prorated ADIT balances are known in the following year, they should replace the forecasted prorated ADIT balances in the beginning-of-year and end-of-year average ADIT balance calculations for true-up purposes.

...

Based on the above, the Department recommends that the Commission require Xcel to replace its forecasted prorated ADIT balances with actual non-prorated ADIT balances in its beginning-of-month and end-of-month average calculations for true-up purposes in future [Transmission Cost Recovery] TCR Rider filings. Alternatively, the Commission could require Xcel's riders to be based solely on historical costs, as Xcel acknowledges that the issue applies only in cases with forward-looking rates.

If Xcel intends to take a stance in this filing similar to the Company's position in the TCR docket, the Department would recommend likewise in the instant case that the Commission require Xcel to replace its forecasted pro-rated ADIT balances with actual non-prorated ADIT balances in its beginning of-month and end-of-month average calculations for true-up



purposes in future RES Rider filings. Alternatively, the Commission could require Xcel's riders to be based solely on historical costs.

#### *11. Additional Information – Incremental Cost Recovery*

The Commission's Order in Docket No. E002/M-07-872 dated March 20, 2008 stipulated:

... only incremental costs not recovered elsewhere in Xcel's rates are allowed to flow through the rider.<sup>15</sup>

The Company indicated that consistent with their previous RES Rider filings, the Company reaffirmed that its revenue requirements for the 2016 RES Rider Rate Adjustment Factors include only incremental costs not recovered elsewhere in the Company's rates.

The Company noted that, to provide further assurance of the accuracy of its calculations, a consultant reviewed and verified the accuracy of the Petition by: (1) recalculating the Company's revenue requirements and trackers; (2) reviewing the compliance of these calculations with the intent of any statutes, Commission Orders and previous Company filings; and (3) verifying that costs proposed to be recovered through the RES Rider Rate Adjustment Factors are not being recovered under any other cost recovery mechanism.

The Department notes that in light of the fact that this RES Rider is limited to a true-up of the first half of 2015 PTC amounts and the 2016 Rider Revenue Requirements, based on the information provided by the Company regarding its consultant review, it is reasonable to conclude that the Company is proposing to collect only incremental costs in this RES Rider Petition.

#### *D. RES RIDER TRUE-UP REPORT*

As with other rate adjustment mechanisms, the RES Rider uses a tracker account (RES Rider Tracker) to account for eligible PTCs. Each month, the Company tracks PTC recovery under the RES Adjustment Factor as compared to the amount included in base rates. Under-recovered amounts are tracked in FERC Account 182.3, Other Regulatory Assets, while over-recovered amounts are tracked in FERC Account 254, Other Regulatory Liabilities. The over- or under-recovered balance from the previous year is included in the calculation of the RES Adjustment Factor.

With the addition of a capital project to the RES Rider, each month as revenues are collected from retail customers, the Company tracks the amount of recovery under the RES rate adjustment and compares that amount with the actual costs including a return on investments, depreciation expense, federal and state income taxes, production taxes, O&M expenses and royalty payments. The differences are recorded in the RES Tracker account (FERC Account 182.3, Other Regulatory Assets) as the amount of over- or under-recovery. Any over- or under-recovery balance from the prior year is used in the calculation of the RES Adjustment Factor.

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<sup>15</sup> Order Paragraph Number 2(a).

Consistent with a prior Commission Order,<sup>16</sup> the Company has provided the amount collected from retail customers and PTCs in Attachment B to the *Revised Petition*. The Department has reviewed Xcel's 2015 True-up report provided in Attachment B and concludes that it is reasonable.

*E. CALCULATION OF THE RES ADJUSTMENT FACTOR*

As stated in section A above, the Company calculated the 2016 RES Adjustment Factor by dividing the RES Rider costs by their projected revenues.

$$RES\ Adjustment\ Factor = \frac{RES\ Rider\ Cost}{Revenues, \text{excluding fuel, riders, and taxes}}$$

Based on the RES Rider cost and revenues calculated in Attachments A and B to the *Revised Petition* and *Supplement*, Xcel calculated a 2016 RES Adjustment Factor of 0.822 percent. In its February 2, 2016 *Supplement*, Xcel did not state what the resulting bill impact would be using this Adjustment Factor. However in its, *Revised Petition*, Xcel stated that the Adjustment Factor of 0.820 percent results in an average bill impact of \$0.55 for a typical residential customer using 750 kWh per month. Thus, the bill impact using the proposed Adjustment Factor from the *Supplement* should not be materially different; however, Xcel can clarify and provide the bill impact in its *Reply Comments*.

The Company provided the calculations for the RES Adjustment Factor on page 1 of Attachment C to the *Supplement*. The Department has investigated this calculation and concludes that it is in line with the Commission's Orders in previous RES Rider True-up dockets<sup>17</sup>.

On page 12 of its *Revised Petition*, the Company stated the following:

If this Petition has not been approved in time to implement the new Adjustment Factor on January 1, 2016, we propose to update the final 2016 RES Adjustment Factor for the implementation month and include the calculations with the corresponding tariff pages in our compliance filing within 10 days of receiving a final Commission Order in this docket.

The Department notes that riders have subsequent true-up periods and as such the tracker balance will show what the Company will have collected in revenues and it can adjust the balance (that is, the difference between the total 2016 revenue requirements and the amount of revenues received from customers under this rider) going forward for the next true-up and RES Rider filing. Therefore, the Department recommends that the Company implement the 2016 Adjustment Factor in the beginning of the month following the Commission's Order in the instant Docket.

<sup>16</sup> Commission Order dated March 20, 2008 in Docket No. E002/M-07-872.

<sup>17</sup> Docket Nos. E002/M-14-733 and E002/M-13-475.

*F. REVISED TARIFF SHEETS AND CUSTOMER NOTICE*

The Company did not provide the redline and clean tariff pages to reflect the RES Adjustment Factor shown in the Company's *Supplement*. However, the Department has reviewed Xcel's redline and clean versions of its RES Rider tariff pages as provided in Attachment L to the *Revised Petition*. Based on its review at this time, the Department notes that the only changes proposed in the tariff are the change to the RES Adjustment Factor and administrative updates to the Revision No., Date Filed, Docket No., Issue By, Order Date, and Effective Date.

The Department recommends that the Company provide the redline and clean tariff pages in its *Reply Comments*.

The Department has reviewed the Company's proposed customer notice as found on page 12 of Xcel's *Revised Petition*. Based on its review, the Department considers the Company's notice to be acceptable but recommends minor revisions at this time. The Department suggests the following changes to the proposed customer notice to be provided on customer bills, as follows:

Starting tThis month the Resource Adjustment has increased due to changes in the Renewable Energy Standard (RES) Rider which recovers our investments and expenses to add renewable energy systems to our generation resources. The RES Rider portion of the Resource Adjustment is ~~0.820~~ 0.822% of these charges on your bill: basic service charge, energy charge, and demand charge.

The Department recommends that the Commission withhold approval of the proposed revised tariff sheets and customer notices, as amended above, until the Company provides the redline and clean tariff sheets and the Company provides the clarifications and additional information requested herein.

*G. COMPLIANCE IN VARIOUS COMMISSION ORDERS*

*1. Docket No. E002/GR-13-868.*

Ordering point 24 of the Commission's May 8, 2015 Findings of Fact, Conclusions, and Order states:

By September 1, 2015, or in its next Renewable Energy Standard-rider filing, the Company shall report the results of stakeholder discussions on alternative cost-recovery formulas for the Pleasant Valley and Border Winds projects designed to allocate risks and create incentives.

On page 13 of its *Revised Petition*, the Company stated the following:

As we have noted in other update filings,<sup>15</sup> the Company and the Minnesota Chamber of Commerce have had several discussions regarding development of a wind incentive mechanism. While we have not, to date, reached a consensus, the discussions have been productive and have explored a number of potential approaches. We will continue to work closely with the Chamber on this issue and report to the Commission on progress.

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<sup>15</sup> See December 22, 2014 and June 1, 2015 filings in Docket Nos. E002/M-13-603, E002/M-13-716, E002/GR-13-686, and E002/M-14-733.

Thus, the Company complied with the Commission's Order noted above.

2. *Docket No. E002/M-15-401.*

Ordering points 3 and 4 of the Commission's September 2, 2015 *Order Approving Acquisition under Minn. Stat. § 216B.1645, Subd. 2a and Authorizing Cost Recovery* states:

3. The Commission defers the disputed issue regarding the allocation of the North Dakota Investment Tax Credit to the Company's initial, comprehensive cost-recovery filing including Courtenay costs, whether that is its next rate case or its next annual Renewable Energy Standards Rider filing.
4. The Company shall include in the initial filing in its next rate case both testimony and schedules disclosing, in detail and by project, all North Dakota Investment Tax Credits and all other non-Minnesota state tax credits earned or held by the Company as a result of its investments and activity.

On page 13 of its *Revised Petition* (filed by the Company on 9-29-15) the Company stated the following:

In the Commission's discussion of the Courtenay Wind Farm at its July 30, 2015 hearing, the Commission orally approved Decision Option No. 2, which states that the Commission will "Defer making a decision on the disputed North Dakota Investment Tax (ND ITC) allocation issue to Xcel Energy's initial cost recovery filing (either the renewable energy rider or electric rate case." Because the ND ITC issue primarily impacts rate recovery of the Border Winds project which is included in base rates, we intend to comply with this decision option in our

upcoming rate case instead of in the present RES Rider Petition.

In its IR No. 4, included as DOC Attachment 1, the Department asked Xcel to explain why the Company did not address the North Dakota Investment Tax Credit (ND ITC) related to the Courtenay Project in its 2016 RES Rider in accordance with the Commission's Order above. In its response to DOC IR No. 4 the Company stated the following:

The potential for North Dakota Income Tax Credits (NDITCs) pertains primarily to the Border Winds project. This project is included in the Company's request to increase base rates in Docket No. E002/GR-15-826, filed November 2, 2015. This filing was the first opportunity to discuss ratepayer cost recovery. In the 2015 rate case, a discussion of the Company's position with respect to the Minnesota treatment of NDITCs is contained in the direct testimony of Company witness Anne E. Heuer in section IX. Compliance with Prior Commission Orders, Part E, Other Compliance Requirements, Item 6, North Dakota Income Tax Credits.

In its IR No. 3, included as DOC Attachment 1, the Department asked Xcel to provide the proportionate share of the NDITC associated with the Courtenay Project by month and year for the years 2016 and 2017. In its response to DOC IR No. 3, the Company stated the following:

- a) The North Dakota Investment Tax Credit (NDITC) for the Courtenay Wind project is \$0 in 2016 and 2017. Although the Courtenay Wind project qualifies for the NDITC, the credit is limited by NSPM's North Dakota taxable income. The Border Winds project will be in service sooner than Courtenay and is expected to generate sufficient NDITC to offset the Company's anticipated tax liability for all but the last year that Courtenay qualifies for the NDITC.
- b) Although the NDITC related to the Courtenay Wind project is \$0, there is no amount that would be proportionately shared with Minnesota ratepayers. The Company's position with respect to the Minnesota treatment of NDITCs is contained in Docket No. E002/GR-15-826 under the direct testimony of Company witness Anne E. Heuer in section IX. Compliance with Prior Commission Orders, part E, Other Compliance Requirements, Item 6, North Dakota Income Tax Credits.

The logic is that income taxes (state and federal) for jurisdictional cost of service are calculated on a stand-alone basis by applying the state-specific and federal defined deductions and credits to the calculation of current taxes. By

consistently applying this stand-alone logic, Minnesota ratepayers are not asked to sponsor North Dakota current state income taxes and North Dakota ratepayers are not asked to sponsor Minnesota current state income taxes. For these reasons, the Company has not applied any North Dakota specific state tax credit to the calculation of Minnesota state and federal current income taxes in the jurisdictional cost of service study.

As mentioned previously, on September 2, 2015, in Docket 15-401, the Commission issued its *Order Approving Acquisition Under Minn. § 216B.1645 Subd. 2a and Authorizing Cost Recovery*. The Department notes that the Courtenay Wind facility is a resource based on Xcel's integrated system that consists of Minnesota, North Dakota, South Dakota (NSP-M) and Wisconsin and Michigan (NSP-WI). As the name NDITC implies, these tax credits would not have materialized were it not for the fact that Xcel chose to invest in acquiring and building this cost effective system resource, as described in detail in Docket 15-401. As indicated in the Company's *Revised Petition and Supplement*, Minnesota ratepayers are being asked to bear the costs for this system resource.

The Department notes that Xcel appears to have changed its position on whether Minnesota ratepayers should be credited for their proportionate share of NDITCs. Xcel stated in its Renewable Energy Rider in Docket No. E002/M-10-1066 that:

North Dakota Investment Tax Credit: In order to calculate this credit, we first calculated an average of the North Dakota state taxes calculated in our annual cost of service study over the last six years. We used six years in order to get an adequate representation of the effect of other tax credits. Based on this representation of taxes, we calculated the total tax credit that would be available over the next 25 years and assigned the applicable portion to the MN jurisdiction. We included this in the revenue requirement calculations from the time the Merricourt Wind Project goes into service in 2011 forward.<sup>18</sup>

Furthermore, the Department notes that Xcel credited Minnesota ratepayers for their proportionate share of NDITCs associated with the Merricourt Wind Farm and the Wind2Battery Project in their initial revenue requirement calculations in Docket No. E002/M-10-1066.<sup>19</sup> Although the Merricourt Wind Farm was later cancelled by Xcel and removed from the revenue requirement calculations, the Wind2Battery Project remained in the final revenue requirement calculations and included NDITC credits to Minnesota ratepayers.<sup>20</sup> Similarly, the Department notes that Otter Tail Power Company credited Minnesota ratepayers for their proportionate share of NDITCs associated with several wind

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<sup>18</sup> Xcel's October 5, 2010 initial filing in Docket No. E002/M-10-1066, Page 16.

<sup>19</sup> Xcel's October 5, 2010 initial filing in Docket No. E002/M-10-1066, Attachment C, Schedule 1.

<sup>20</sup> Xcel's April 11, 2011 supplemental filing in Docket No. E002/M-10-1066, Attachment C.

farms in their Renewable Energy Rider in Docket No. E017/M-09-1484.<sup>21</sup> In both cases, the Commission's determinations in those dockets were consistent with the proposed NDITC treatment. Thus, the Department concludes that Xcel and Otter Tail Power Company have credited Minnesota ratepayers for their share of NDITCs in previous renewable riders.

The Department continues to recommend that that Xcel credit its Minnesota ratepayers for their proportionate share of used NDITCs associated with the Courtney Project, based on the pro-rata share of the costs of the Courtenay project that is charged to Minnesota ratepayers. Alternatively, none of the costs of the Courtenay project should be charged to Minnesota ratepayers in this rider petition.

#### IV. CONCLUSIONS AND RECOMMENDATIONS

##### A. CONCLUSIONS

The Department concludes that Xcel appropriately factored in the correct REC fees in its calculation of the REC sales credit refunded to customers.

The Department concludes that Xcel's treatment of return on CWIP is reasonable, as allowed by Minnesota statutes.

The Department concludes that Xcel's estimated 25-year life for the Courtenay Project appears reasonable.

The Department concludes that Xcel's removal of internal labor costs appears reasonable.

The Department notes that in light of the fact that this RES Rider is limited to a true-up of the first half of 2015 PTC amounts and the 2016 Rider Revenue Requirements, based on the information provided by the Company regarding its consultant review, it is reasonable to conclude that the Company is proposing to collect only incremental costs in this RES Rider Petition.

Finally, the Department considers the Company's notice to be acceptable but recommends minor revisions at this time.

##### B. RECOMMENDATIONS

The Department recommends that the Company in its *Reply Comments*:

- provide the bill impact associated with the 0.822 Adjustment Factor;
- provide the redline and clean tariff pages associated with the 0.822 percent Adjustment Factor; and

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<sup>21</sup> Otter Tail Power Company's December 31, 2009 initial filing in Docket No. E017/M-09-1484, Attachments 1-3.

- clarify that Minnesota is not being charged for any additional AFUDC attributable to any state after the eligibility date,

The Department recommends, at this time, that the Commission:

- Require Xcel to file copies of all the relevant 2015 tax forms supporting its 2015 actual PTC figures in the Company's next RES true-up filing;
- Require Xcel to credit the slightly higher level of actual PTCs for 2014 to ratepayers in the Company's instant RES true-up;
- Require Xcel to provide detailed revenue collections by customer class in addition to the summary it provides in its future RES Rider filings;
- Require Xcel to replace its forecasted pro-rated ADIT balances with actual non-prorated ADIT balances in its beginning of-month and end-of-month average calculations for true-up purposes in future RES Rider filings. Alternatively, the Commission could require Xcel's riders to be based solely on historical costs;
- Require Xcel to implement the 2016 Adjustment Factor in the beginning of the month following the Commission's Order in the instant Docket; and
- Require Xcel to credit its Minnesota ratepayers for their proportionate share of used NDITCs associated with the Courtney Project, based on the pro-rata share of the costs of the Courtenay project that is charged to Minnesota ratepayers. Alternatively, none of the costs of the Courtenay project should be charged to Minnesota ratepayers in this rider petition.

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Xcel Energy

Docket No.: E002/M-15-805

Response To: MN Department of Commerce Information Request No. 2

Requestor: Sachin Shah

Date Received: April 4, 2016

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Question:

Subject: Revised Petition and Supplement of Northern States Power Company d/b/a Xcel Energy (Xcel or the Company) for Approval of the Renewable Energy Standard Rider.

Reference: Revised Petition.

In the Revised Petition Attachment A, the Company provides its calculation of the Renewable Energy Credit (REC) Sales.

- (a) Please identify and provide a detailed explanation of how the \$100 “REC issuance fee” was determined by the Company.
- (b) What are the REC fees that were assessed by Midwest Renewable Energy Tracking System (M-RETS) when the RECs were first created?
- (c) How were the REC fees, referenced in part (b) above, determined? Please explain in detail?
- (d) Please separately identify the transfer fees assessed by MRETS and NC –RETS for the RECs referenced in the Company’s Revised Petition Attachment A.
- (e) As part of your response to part (d) above, please explain in detail how the transfer fees were determined?

Where applicable for any and all parts above, please provide the requested data in a Microsoft Excel executable format with all links and formulae intact. If any of these links target an outside file, please provide all such additional files.

If this information has already been provided in written testimony or in response to an earlier Department of Commerce (DOC) information request, please identify the specific testimony, and/or filing cite(s) or DOC information request number(s).

Response:

The Midwest Renewable Energy Tracking System (M-RETS) charges four different categories of fees:

- Subscriptions Fees: Paid annually based on the type of account maintained by the subscriber
- Issuance Fees: Paid per-Renewable Energy Credit (REC) issued in the M-RETS Registry each calendar year by a given generator registered in the subscriber's account. The Issuance Fee in 2015 was \$0.005/REC issued.
- Retirement Fees: Paid per-REC for each REC retired in an account holder's account in the M-RETS Registry. The Retirement Fee in 2015 was \$0.015/REC retired.
- Import/Export Fees: Paid for any REC transaction occurring between M-RETS and another approved tracking system, applied one time per calendar day for all RECs imported or exported between accounts. The Import/Export Fee in 2015 was \$100/import or export transaction between unique accounts.

For the Company's sale of 20,000 poultry litter RECs from the Fibrominn facility to a North Carolina utility in the spring of 2015, we were assessed two of those fees by M-RETS: an Issuance Fee and an Import/Export fee. The Export Fee in this case was included in an invoice from M-RETS for a larger batch of RECs and was therefore not attributed to the Fibrominn REC sale. Only the Issuance Fee was included in the Company's Revised Petition Attachment A. More information about the sale of these RECs and the Company's proposal to share proceeds from those sales with customers can be found in Docket No. E002/M-15-515.

- (a) The \$100 "REC issuance fee" was based on the M-RETS Issuance Fee charges in the spring of 2015 per REC issued. The Company sold 20,000 RECs, which were each charged the fee at the time of \$0.005/REC. Therefore the total REC Issuance Fees for 20,000 RECs was \$100, based on 20,000 RECs multiplied by \$.005/REC issued (20,000 RECs \* \$.005/REC = \$100).

- (b) The poultry RECs were created in 2014, and the issuance fee at that time was \$0.005/REC. Therefore the fees assessed by M-RETS for those RECs were \$100, based on the calculation described above.
- (c) The Issuance Fee and Import/Export Fees described above were determined based on the M-RETS Fee Schedule that was effective at the time of the REC sales: <http://www.mrets.org/wp-content/uploads/sites/8/2014/12/M-RETS%C2%AE-Fee-Structure-Effective-2015.pdf>
- (d) There were no transfer fees referenced in the Company's Revised Petition Attachment A. While the Company was charged an Import/Export Fee for the transfer of the Fibrominn RECs from M-RETS to the North Carolina Renewable Energy Tracking System (NC-RETS), that fee was not attributed to the sale of these RECs, and therefore was not deducted from the amount returned to customers through the RES Rider.
- (e) See response to part (c) above.

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Preparer: Jeff Haskins  
Title: Renewable Portfolio Manager  
Department: Purchased Power  
Telephone: 303-571-6454  
Date: April 14, 2016

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Xcel Energy

Docket No.: E002/M-15-805

Response To: MN Department of Commerce Information Request No. 3

Requestor: Sachin Shah

Date Received: April 4, 2016

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Question:

Subject: Revised Petition and Supplement of Northern States Power Company d/b/a Xcel Energy (Xcel or the Company) for Approval of the Renewable Energy Standard Rider.

Reference: Revised Petition and Supplement.

- a) Please identify the proportionate share of the North Dakota Investment Tax Credit (NDITC) associated with the Courtenay Project by month and year for the years 2016 and 2017.
- b) As part of your response to part (a) above, is the proportionate share based on the pro-rata share of the costs of the Courtenay project that is charged to Minnesota ratepayers?

Where applicable for any and all parts above, please provide the requested data in a Microsoft Excel executable format with all links and formulae intact. If any of these links target an outside file, please provide all such additional files.

If this information has already been provided in written testimony or in response to an earlier Department of Commerce (DOC) information request, please identify the specific testimony, and/or filing cite(s) or DOC information request number(s).

Response:

- a) The North Dakota Investment Tax Credit (NDITC) for the Courtenay Wind project is \$0 in 2016 and 2017. Although the Courtenay Wind project qualifies

for the NDITC, the credit is limited by NSPM's North Dakota taxable income. The Border Winds project will be in service sooner than Courtenay and is expected to generate sufficient NDITC to offset the Company's anticipated tax liability for all but the last year that Courtenay qualifies for the NDITC.

- b) Although the NDITC related to the Courtenay Wind project is \$0, there is no amount that would be proportionately shared with Minnesota ratepayers. The Company's position with respect to the Minnesota treatment of NDITCs is contained in Docket No. E002/GR-15-826 under the direct testimony of Company witness Anne E. Heuer in section IX. Compliance with Prior Commission Orders, part E, Other Compliance Requirements, Item 6, North Dakota Income Tax Credits.

The logic is that income taxes (state and federal) for jurisdictional cost of service are calculated on a stand-alone basis by applying the state-specific and federal defined deductions and credits to the calculation of current taxes. By consistently applying this stand-alone logic, Minnesota ratepayers are not asked to sponsor North Dakota current state income taxes and North Dakota ratepayers are not asked to sponsor Minnesota current state income taxes. For these reasons, the Company has not applied any North Dakota specific state tax credit to the calculation of Minnesota state and federal current income taxes in the jurisdictional cost of service study.

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Preparer: Joanna Yugo  
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Department: Revenue Analysis  
Telephone: 612-215-4633  
Date: April 14, 2016

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Xcel Energy

Docket No.: E002/M-15-805

Response To: MN Department of Commerce Information Request No. 4

Requestor: Sachin Shah

Date Received: April 4, 2016

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Question:

Subject: North Dakota Investment Tax Credits (NDITCs)

Reference: Initial Petition, Revised Petition and Supplement.

Ordering point 3 of the Commission's September 2, 2015 Order Approving Acquisition under Minn. Stat. § 216B.1645, Subd. 2a and Authorizing Cost Recovery in Docket No. E002/M-15-401 states:

The Commission defers the disputed issue regarding the allocation of the North Dakota Investment Tax Credit to the Company's initial, comprehensive cost-recovery filing including Courtenay costs, whether that is its next rate case or its next annual Renewable Energy Standards Rider filing.

Since the 2016 RES Rider constitutes Xcel's initial comprehensive cost-recovery filing for the Courtney Wind Project, please explain why Xcel did not address the NDITC issues in its 2016 RES Rider in accordance with the Commission's Order above.

Response:

The potential for North Dakota Income Tax Credits (NDITCs) pertains primarily to the Border Winds project. This project is included in the Company's request to increase base rates in Docket No. E002/GR-15-826, filed November 2, 2015. This filing was the first opportunity to discuss ratepayer cost recovery. In the 2015 rate case, a discussion of the Company's position with respect to the Minnesota treatment of NDITCs is contained in the direct testimony of Company witness Anne E. Heuer

in section IX. Compliance with Prior Commission Orders, Part E, Other Compliance Requirements, Item 6, North Dakota Income Tax Credits.

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Preparer: Jeffrey C. Robinson  
Title: Specialized Business Consultant  
Department: Revenue Requirements - North  
Telephone: 612-330-5912  
Date: April 14, 2016

## **CERTIFICATE OF SERVICE**

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

**Minnesota Department of Commerce  
Public Comments**

**Docket No. E002/M-15-805**

**Dated this 2<sup>nd</sup> day of May 2016**

**/s/Sharon Ferguson**



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