

Minnesota Public Utilities Commission
Staff Briefing Papers – Volume I of VII
Introduction

Meeting Date: March 19 & 26, 2015 **Agenda Item #** __ **

Company: Northern States Power Company d/b/a Xcel Energy (Xcel or the Company)

Docket No. E-002/GR-13-868
In the Matter of the Application of Northern States Power Company for
Authority to Increase Rates for Electric Service in the State of Minnesota

Issues: Should the Commission adopt the recommendations in the ALJ’s Report? If not, what level of revenue is appropriate for the Company during the test year? How should that revenue be collected from its customers?

Staff: Bob Harding (Case Manager – Vol. I) 651-201-2237
Dorothy Morrissey (Financial – Vol. II) 201-2238
Clark Kaml (Rate of Return – Vol. III) 201-2246
Ganesh Krishnan (Sales Forecast & CCOSS – Vol. IV) 201-2246
Andrew Bahn (Revenue Decoupling – Vol. V) 201-2249
Susan Mackenzie (Rate Design – Vol. VI) 201-2246
Andrew Twite (Rate Design – Vol. VI) 201-2246
Jorge Alonso (Financial – Vol. VII) 201-2242
Jerry Dasinger (Financial – Vol. VII)..... 201-2247

Relevant Documents

Post-Hearing Summary of Disputed and Resolved Issues

Xcel – Updated, Final Summary of Issues Including Feedback from Parties Oct. 7, 2014

Initial Briefs

Xcel Energy (Xcel) Sep. 23, 2014
Department of Commerce (Department) Sep. 23, 2014
Office of Attorney General-Antitrust & Utilities Division (OAG-AUD) Sep. 23, 2014
Xcel Large Industrials (XLI) Sep. 23, 2014
ICI Group/U.S. Energy Sep. 23, 2014
Minnesota Chamber of Commerce (MCC)..... Sep. 23, 2014
Commercial Group Sep. 23, 2014
Suburban Rate Authority (SRA)..... Sep. 23, 2014
Energy Cents Coalition (ECC) Sep. 23, 2014
Clean Energy Intervenors (MCEA, NRDC, IWLA, FE & SC) Sep. 23, 2014
American Association of Retired Persons (AARP) Sep. 23, 2014

Reply Briefs

Xcel	Oct. 14, 2014
Department	Oct. 14, 2014
OAG-AUD	Oct. 14, 2014
XLI	Oct. 14, 2014
ICI Group/U.S. Energy	Oct. 14, 2014
MCC	Oct. 14, 2014
SRA (includes proposed findings and conclusions)	Oct. 14, 2014
ECC	Oct. 14, 2014
Clean Energy Intervenors (MCEA, NRDC, IWLA, FE & SC)	Oct. 14, 2014
AARP	Oct. 14, 2014

Proposed Findings of Fact

Xcel	Oct. 14, 2014
Department	Oct. 14, 2014
OAG-AUD	Oct. 14, 2014
XLI	Oct. 14, 2014
MCC	Oct. 14, 2014
Clean Energy Intervenors (MCEA, NRDC, IWLA, FE & SC)	Oct. 14, 2014

ALJ Report

Findings of Fact, Conclusions of Law and Recommendation	Dec. 26, 2014
Master Exhibit List	Sep. 19, 2014
Xcel - Schedules Reflecting ALJ Recommendation	Jan. 9, 2015
Department - Comments on Xcel's Schedules	Jan. 20, 2015

Xcel – Updates to Record Information

Xcel – Notice of Receipt of Fifth DOE Settlement Payment	Jan. 12, 2015
Xcel – Actual Sales Data & Property Tax Expense Update	Jan. 16, 2015

Exceptions to the ALJ Report

Xcel Energy (Xcel)	Jan. 20, 2015
Department of Commerce (Department)	Jan. 20, 2015
Office of Attorney General-Antitrust & Utilities Division (OAG-AUD)	Jan. 20, 2015
Xcel Large Industrials (XLI)	Jan. 20, 2015
ICI Group/U.S. Energy	Jan. 20, 2015
Minnesota Chamber of Commerce (MCC)	Jan. 20, 2015
Suburban Rate Authority (SRA)	Jan. 20, 2015
Clean Energy Intervenors (MCEA, NRDC, IWLA, FE & SC)	Jan. 20, 2015
American Association of Retired Persons (AARP)	Jan. 20, 2015

Xcel's Interim Rate Refund Proposal

Xcel – Interim Rate Refund Proposal	Nov. 13, 2014
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Department - Comments	Jan. 13, 2015
OAG-AUD – Comments	Jan. 13, 2015
Xcel – Reply Comments	Jan. 23, 2014
OAG-AUD – Reply Comments	Jan. 23, 2015

Xcel Energy & Babcock & Wilcox Nuclear Energy, Inc. Dispute

OAG-AUD – Request for procedural guidance	Jan. 20, 2015
Department - Comments	Feb. 2, 2015
Xcel – Comments.....	Feb. 3, 2015
Department – Reply Comments.....	Feb. 10, 2015
OAG-AUD – Reply Comments	Feb. 10, 2015

The attached materials are workpapers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless otherwise noted.

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Statement of the Issue

Should the Commission adopt the recommendations in the ALJ's Report? If not, what level of revenue is appropriate for the Company during the test year? How should that revenue be collected from its customers?

Introduction

On December 26, 2014, Administrative Law Judge Jeanne M. Cochran (ALJ) issued her Findings of Fact, Conclusions of Law and Recommendations (ALJ Report).

On January 9, 2015, Xcel submitted schedules that reflect Xcel's interpretation of the adjustments to the 2014 test-year and 2015 step-year revenue requirement and rate design recommended by the ALJ. On January 16, 2015, Xcel submitted actual sales and customer data for all of 2014 and updated property tax expense information. On January 20, 2015, the Department filed a letter indicating that based on its review of the information Xcel provided in January 9 and 16, Xcel's filings accurately reflect the ALJ's recommendation.

According to the information Xcel provided on January 16, 2015, if the Commission adopts the recommendations in the ALJ Report without any modification, Xcel's request for a \$192.7 million (or approximately 6.9 percent) rate increase in the 2014 test-year would be reduced to \$69.6 million (or approximately 2.54 percent) based on a rate of return on common equity of 9.77 percent. Xcel's request for an additional \$98.5 million (or approximately 3.5 percent) in the 2015 step-year would increase to \$121.7 million. Overall, for the two-year (multi-year) period, instead of the \$291.2 million (or 10.4 percent) in Xcel's initial request, the ALJ recommended an increase of \$191.3 million (or approximately 7.0 percent).

Xcel's Multi Year Rate Plan	Xcel - as filed		ALJ Recommendation as interpreted by Xcel (as of Jan. 16, 2015)	
	Increase (millions)	Increase (percent)	Increase (millions)	Increase (percent)
Calendar year 2014 - test year	\$ 192.7	6.9 %	\$69.6	2.54%
Calendar year 2015 - step	\$ 98.5	3.5 %	\$121.7	
Two-year total (approximate)	\$ 291.2	10.4 %	\$191.3	6.99%

Xcel is currently authorized to collect an interim rate increase of approximately \$127,406,000 per year, or approximately 4.57 percent, effective January 3, 2014, subject to refund.

This document provides background information about Xcel's proposed rate increase and the compliance filing Xcel will have to make at the end of this case.

Separate staff briefing papers have been prepared that cover the following areas:

- Introduction - Vol. I (PUC staff: Harding)
- Financial Matters - Vol. II (PUC staff: Morrissey)
- Cost of Capital - Vol. III (PUC staff: Kaml)

Sales Forecast & Class Cost of Service Study - Vol. IV (PUC staff: Krishnan)
Revenue Decoupling - Vol. V (PUC staff: Bahn)
Rate Design - Vol. VI (PUC staff: Mackenzie, Twite)
Financial Matters - Vol. VII (PUC staff: Dasinger, Alonso)

A deliberation outline will be distributed separately.

The main issue before the Commission whether to adopt the ALJ's Report, including her recommendations regarding the disputed issues. The following is a list of some of the issues in this case which require a decision. The issues are list in approximately the order in which they appear in the briefing papers and not necessarily in order of importance or the extent to which they are contested.

- Pension expense - qualified pension discount rate and 2008 market losses
- Paid leave/employee labor expense
- Pleasant Valley & Border Winds in the 2015 step year
- Cost of capital – authorized rate of return on equity
- Class cost of service study – various allocation issues
- Revenue decoupling – approve or do not approve full or partial decoupling and design of the cap on rate adjustments
- Class revenue apportionment
- Residential and General Service monthly customer charge
- Conservation cost recovery charge (CCRC) and the CIP adjustment factor
- Prairie Island cancelled EPU project
- Nuclear theoretical depreciation reserve
- Theoretical reserve rate moderation
- Depreciation and plant retirements in the 2015 step year (“passage of time”)
- In-service dates for capital projects
- DOE settlement funds

If the Commission does not accept the ALJ's Report (and recommendations) in its entirety, then, based on Commission modifications to the Report, the Commission will need to decide the Company's appropriate test year revenue level and how that revenue should be collected from customers.

Background

On November 4, 2013, Northern States Power Company d/b/a Xcel Energy (Xcel or the Company) filed a general rate case with the Minnesota Public Utilities Commission (Commission) under Docket No. E-002/GR-13-868. The Company asked for an increase in retail electric rates in Minnesota of \$192.7 million, or 6.9 percent, effective January 1, 2014, based on a forecasted 2014 test year, and a proposed rate of return on equity capital of 10.25 percent. In its proposal for a multiyear rate plan (“MYRP”), Xcel also asked for a calendar year 2015 step increase of \$98.5 million, or 3.5 percent, effective January 1, 2015.

On January 2, 2014, the Commission issued three Orders.¹ In those Orders, the Commission accepted Xcel’s filing, suspended the proposed final rates until the end of this case,² and set this matter for contested case hearing. Administrative Law Judge (ALJ) Jeanne M. Cochran of the Minnesota Office of Administrative Hearings (OAH) was assigned to conduct the case. The Commission also authorized an interim rate increase of approximately \$127,406,000 per year, or approximately 4.57 percent, effective January 3, 2014 and subject to refund.

In its January 16, 2015 filing, Xcel provided updated 2014 test-year information that indicates Xcel had approximately 1,250,000 customers in 2014 and weather normalized actual sales of approximately 30,769,436 MWh.

The intervenors in this case are

- Northern States Power Company d/b/a Xcel Energy (Xcel or the Company)
- Minnesota Department of Commerce-Division of Energy Resources (the Department or DOC)
- Minnesota Office of the Attorney General-Antitrust and Utilities Division (OAG-AUD)
- Xcel Large Industrials (XLI)³
- Minnesota Chamber of Commerce
- The Commercial Group
- IGI Group/U.S. Energy
- Suburban Rate Authority
- Energy Cents Coalition
- Clean Energy Intervenors⁴
- American Association of Retired Persons (AARP)

Xcel, the Department, the Office of Attorney General-Antitrust and Utilities Division, the Xcel Large Industrials, the Minnesota Chamber of Commerce, the Commercial Group, the ICI Group, Energy Cents Coalition, members of the Clean Energy Intervenors, and the American Association of Retired Persons submitted prefiled testimony in advance of the evidentiary hearings. The Suburban Rate Authority did not. (Copies of the prefiled testimony is available electronically through the eDockets system.)

Judge Cochran held public hearings as follows:

Location, date, and time	Members of the public in attendance	Members of the public who spoke
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¹ ORDER ACCEPTING FILING AND SUSPENDING RATES; NOTICE AND ORDER FOR HEARING; and ORDER SETTING INTERIM RATES (this docket)

² Because there were other rate cases pending and because Xcel proposed a multiyear rate plan, the Commission extended the ten-month statutory deadline for issuing its final decision in this matter for 180 days, until March 3, 2015. On October 24, 2014, Xcel submitted a letter providing a limited waiver which gives the Commission additional time, until approximately May 8, 2015, to issue its decision.

³ The Xcel Large Industrials (or XLI) consist of the following members: (1) Flint Hill Resources, LP, (2) Gerdau Ameristeel US Inc. (3) Unimin Corporation, and (4) USG Interiors, Inc.

⁴ The Clean Energy Intervenors consist of the following members: Minnesota Center for Environmental Advocacy (MCEA), National Resources Defense Council (NRDC), Izaak Walton League of America (IWLA), Fresh Energy (FE) & Sierra Club (SC).

Location, date, and time	Members of the public in attendance	Members of the public who spoke
Minneapolis – June 23, 2014 (1:00 p.m.) Earle Brown Heritage Center	40	12
Minneapolis – June 23, 2014 (7:00 p.m.) Sabathani Community Center	50	20
St. Paul – June 24, 2014 (1:00 pm) West Minnehaha Recreation Center	25	13
Woodbury - June 24, 2014 (7:00 pm) Woodbury Central Park	37	10
Mankato - June 25, 2014 (7:00 pm) Civic Center	38	14
Eden Prairie - June 26, 2014 (7:00 pm) Eden Prairie City Center	33	12
St. Cloud - June 27, 2014 (1:00 pm) Lake George Municipal Complex	40	15
Totals	263	96

In addition, over 900 were received by the ALJ by the July 7, 2014 comment deadline. Judge Cochran summarized the public comment and public testimony on p. 9 (paragraphs 43 – 45) and pp. B-1 through B-14 (Attachment B) of his Report. According to Judge Cochran

43. ... The vast majority of the public comments were from residential customers of the Company, although some business customers also provided comments as did some member organizations. A full summary of the public comments is included as Attachment B to this report.

44. While the public raised a variety of specific concerns, there was widespread concern about the size of the proposed rate increases. Residential customers with fixed and low-incomes expressed concern about their ability to pay for an increase of more than ten percent over two years when they are experiencing little or no increase in their incomes. A large number of seniors commented that the proposed rate increases are not affordable and will result in real hardship. In addition, a number of customers felt that the increased conservation efforts of customers should not result in increased rates. Some customers expressed concern that the Company had not been controlling its costs sufficiently. There were also specific objections to the Company's executive compensation and use of corporate aircraft. Business customers expressed a concern that higher rates would adversely affect their ability to compete or remain profitable. A small number of individuals along with a few local Chambers of Commerce expressed support for the proposed rate increases.

45. A significant number of customers also commented on the rate design proposals in the rate case. These customers raised a variety of perspectives on the following rate design topics: revenue apportionment; decoupling; the customer charge; and Inclining Block Rates (IBR). The public also provided input regarding the Company's generation resources. Some members of the public

expressed support for greater use of renewable energy and conservation, and other members of the public stated that they favor greater use of coal and nuclear resources. (ALJ Report, p. 9, paragraphs 43-45)

Copies of the public hearing transcripts and the written public comments are available electronically.

On August 11-15, 2014, the evidentiary (technical) hearings were held in St. Paul. A copy of the evidentiary hearing transcript is also available electronically.

On September 10, 2014, Xcel submitted the initial version of its disputed and resolved issues list and on October 7, 2014, submitted the version of its summary of disputed and resolved issues which incorporated feedback from most of the parties. On September 23, 2014, Xcel, the Department, OAG-AUD, XLI, ICI Group, MCC, the Commercial Group, SRA, ECC, the Clean Energy Intervenors, and AARP filed initial briefs. On October 14, 2014, Xcel, the Department, OAG-AUD, XLI, ICI Group, MCC, SRA, ECC, the Clean Energy Intervenors, and AARP filed reply briefs and Xcel, the Department, OAG-AUD, XLI, MCC, Clean Energy and SRA filed their proposed findings of fact.

On December 26, 2014, Judge Cochran issued her Report. For reference purposes, there is a master exhibit list that identifies all of the items in the record by exhibit number which are referred to in her Report.

On January 20, 2015, Xcel, the Department, OAG-AUD, XLI, ICI Group, MCC, the Clean Energy Intervenors, and AARP filed exceptions to the ALJ Report. The Commercial Group and ECC did not file exceptions to the ALJ's report and SRA indicated affirmatively in writing that it does not take exception to the ALJ Report.

Issues Set for Hearing

In its January 2, 2014 Notice and Order for Hearing, the Commission identified the following issues for parties to address in this proceeding:

1. Is the test year revenue increase sought by the Company reasonable or will it result in unreasonable and excessive earnings by the Company?
2. Is the rate design proposed by the Company reasonable?
3. Are the Company's proposed capital structure, cost of capital, and return on equity reasonable?
4. Has the Company fully complied with past Commission orders?
5. How should the Commission incorporate into this case the results of the ongoing investigation into the prudence of Xcel's expenditures for life cycle management and the extended power uprate at the Monticello Nuclear Generating Plant?⁴
6. How should the proceeds of any insurance claims and litigation proceeds related to the Company's Sherburne County Generating Station Unit 3 be incorporated into Xcel's rates?
7. What will be the short- and long-term consequences of the rate mitigation strategy proposed by the Company?

Staff believes items one through four above have been addressed throughout this proceeding and generally in the ratemaking process.

Item five was addressed in the Commission investigation into the cost overruns at the Monticello plant.⁵ The Commission heard this matter on March 3 and 6, 2015 and an order will be issued concurrently with the order in this docket.

Item six involving Sherco Unit 3 has two components. The first, involving replacement fuel costs from the plant outage, is disputed and discussed in Volume VII of the briefing papers. The dispute is over whether replacement fuel costs should be addressed in Xcel's AAA (annual automatic adjustment of charges) docket or capitalized and recovered over the life of the plant.

The second issue involving proceeds from insurance cost and litigation has not been resolved. Xcel makes quarterly compliance filings entitled Sherco 3 insurance recovery updates in this and the 2012 rate case docket (#12-961). Xcel's most recent quarterly status report was filed on December 31, 2014. Xcel continues to work with its insurers on various aspects of its claim and will continue to make quarterly reports until the process is complete. Xcel will submit a final report at the end of this process for the Commission to review. Staff does not believe any action is necessary or possible at this time. [Please see ALJ Report, Attachment A, Resolved and Undisputed Corrections, issue 48 and footnote 1568 (p. A-3)]

Item seven involving Xcel's rate mitigation strategy will be addressed when the Commission makes its decisions in this docket on Xcel's proposals for rate moderation.

Issues Not Set for Hearing

The Commission should also be aware of two issues that were not specifically addressed in the ALJ Report that it should be aware of and may want to address.

First, on November 13, 2014, Xcel submitted its interim rate refund proposal. The Department and OAG-AUD submitted comments on January 13, 2015, and Xcel and OAG-AUD submitted replies on January 23, 2015. Interim rate refund plans are usually addressed in the compliance filing, however, because Xcel's request is the first one in a multiyear rate plan, the Commission may want to provide Xcel with preliminary guidance as to whether Xcel would be permitted to net over-recoveries in the test-year against under-recoveries in the step-year. This issue is discussed in Volume VII of the staff briefing papers.

And second, on January 20, 2015, OAG-AUD submitted a letter asking for procedural guidance regarding a billing dispute between Xcel and Babcock and Wilcox Nuclear Energy, Inc. (a contractor working for Xcel). Xcel and the Department submitted comments on February 2 and 3, 2015, and the Department and OAG-AUD submitted replies on February 10, 2015. This issue is also discussed in Volume VII of the staff briefing papers.

⁵ In the Matter of a Commission Investigation into Xcel Energy's Monticello Life-Cycle Management/Extended Power Uprate Project and Request for Recovery of Cost Overruns, Docket No. E-002/CI-13-754

General Housekeeping and Compliance Issues

All of the compliance filing requirements in the decision alternatives are standard rate case compliance items. These requirements ensure that Xcel files various financial and rate design schedules that reflect the Commission's decision, revised tariff sheets, a draft customer notice, and a new base cost of gas. Staff notes that in this case an interim rate refund plan may not be necessary if final rates are higher than interim rates.

Staff also recommends the Commission include a set of financial summaries for Xcel in its order in this docket that includes: a schedule showing the calculation of Xcel's authorized cost of capital, a rate base summary, an operating income statement summary, a gross revenue deficiency calculation, and a statement of total allowed revenues.

(Note: The decision items for the thirty-day compliance filing are listed under alternative VIII (1 through 3) at the end of the deliberation outline.)