MINNESOTA
PUBLIC UTILITIES COMMISSION

Staff Briefing Papers

Meeting Date	February 27, 2020		Agenda Item 2*
Company	Northern States Power Company, d/b/a Xcel Energy		
Docket No.	**E002/PA-18-294** In the Matter of Xcel Energy's Petition for Approval to Sell Two Liquid Propane Fuel Storage Tanks, Associated Equipment, and Real Property to Flint Hills Resources Pine Bend, LLC		
Issue	Should the Commission accept Northern States Power's compliance filing?		
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✓ **Relevant Documents**	**Date**
Order Granting Variance and Approving Sale with Conditions	March 28, 2019
Xcel Extension Request – Final Journal Entries	May 9, 2019
Order Clarifying and Correcting March 28, 2019 Order Approving Sale	June 14, 2019
Xcel Extension Request – Final Journal Entries	August 15, 2019
Xcel Compliance Filing	November 22, 2019

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I. Statement of the Issue

Should the Commission accept Northern States Power's compliance filing?

II. Introduction

a. Sale of Xcel's Propane Tanks to Flint Hills

On April 25, 2018, Northern States Power Company d/b/a Xcel Energy (Xcel or the Company) filed a petition for approval to sell two liquid propane (LP) fuel storage tanks (including the associated equipment and land) to Flint Hills Resources.

Xcel initially represented that Flint Hills would pay roughly $10 million for the tanks (and for the related and land).

In the initial filing, Xcel provided preliminary accounting journal entries showing that it sold some 300,000 gallons of propane, at a price less than the price paid by Xcel, to Flint Hills, incurring a loss. Xcel also noted that it incurred a further loss on the last 300,000 gallons in the storage tanks, which could not be transferred to Flint Hills due to operational difficulties and had to be flared off.

Xcel expected to incur capital costs totaling $2.66 million to prepare the tanks for sale, resulting in a pretax gain on the sale of approximately $7 million (roughly $6.3 million on a Minnesota jurisdictional basis). Xcel also proposed to recover the losses associated with disposing of the remaining propane in the storage tanks from ratepayers by netting them against the gain on the sale of the tanks.

b. Commission Action

In its March 28, 2019 Order,[1] the Commission approved the sale of tanks to Flint Hills, but denied Xcel's request to net the propane losses against the gain from the sale [ordering point 5].

In addition, the Commission required Xcel, among other things, to:

* return the gain[2] as a direct bill credit, based on the approved apportionment of revenue responsibility from the last general rate case and distributed evenly by customer count in each rate class [ordering point 6]; and

[1] On June 14, 2019, the Commission issued an order clarifying and correcting its March 28, 2019 order. The Commission acknowledged in the June 14, 2019 order that its original determination, in the March 28, 2019, order authorizing Xcel to record the Flint Hills sale to FERC Account 182.3 was inconsistent with its decision (in the same March 28, 2019 order) denying Xcel's request to net the propane losses against the gain from the transaction. Consequently, in the June 14, 2019 order, the Commission deleted the ordering point in which the Commission authorized Xcel to record the Flint Hills sale to FERC Account 182.3. Staff acknowledges that in the final journal entries submitted by Xcel, no activity was recorded to FERC account 182.3.

[2] Xcel noted in the November 22, 2019 compliance filing that the gain originally estimated to be

* make a compliance filing 30 days after the close of the sale, reflecting the Commission's decisions in the final journal entries [ordering point 8].

c. Xcel's Request for Extension of Time to Submit Compliance Filing

On May 9, 2019, Xcel filed a letter noting that it completed the sale of the land and tanks on April 10, 2019. In that letter, Xcel requested an extension of time, from May 10, 2019 to August 15, 2019, to file the final journal entries. Xcel noted that:

> due to the complexity of the steps involved in this transaction, including the separation of the LNG and LP facilities, there is still work being performed so we do not yet have final costs to incorporate into our journal entries.

In a footnote, Xcel explained:

> Selling the LP facilities to Flint Hills required a number of modifications to fully separate the LNG facilities (which the Company still owns) from the LP facilities, so the two facilities—now owned by two unaffiliated entities—would have adequate security and infrastructure to communicate and measure service separately.

On August 15, 2019, Xcel filed a letter seeking further extension of time, until November 22, 2019, to file the final journal entries. Xcel reiterated its earlier claim that the complexity of the steps involved in this transaction, including the separation of the LNG and LP facilities, has entailed more work than was anticipated.

d. Xcel's Compliance Filing

On November 22, 2019, Xcel submitted its compliance filing.

III. Details of Xcel's Compliance Filing

Xcel indicated that the transaction required several modifications so as to fully separate the LNG facilities (which Xcel still owns) from the LP facilities (which Xcel sold to Flint Hills) which, in turn, increased the transaction costs, and correspondingly, decreased the actual pre-tax gain on the transaction.

Xcel noted that the Commission's March 28, 2019 Order directed the Company to "return the gain." This gain was initially estimated to be $6.1 million, pre-tax, for Minnesota.

Xcel indicated that while the actual transaction costs turned out to be higher than initially estimated and reduced the gain, yet, Xcel will return to the customers the amount of gain initially estimated.

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returned to customers was $6.1 million (pre-tax, for Minnesota). Xcel's journal entries in the initial filing estimated the gain to be $6,138,346.

In the final journal entries, Xcel shows sale proceeds of $10,434,404 and non-fuel costs of $3,816,823. These non-fuel costs constitute the transactions costs and comprise of costs associated with activities such as tank inspections, fencing, and communications infrastructure. These costs were originally estimated to be $2.7 million (sum of "cost of removal" and "other regulatory liability" in the initial journal entries reproduced below).

In the final journal entries, the loss on sale of propane at a price less than the costs of acquiring and the loss associated with "flaring" the "remainder propane" are recorded in account 186.

Collectively, these two costs amount to $623,785.46 and this amount is appropriately described as "loss on disposition of property" and recorded in activity "write-off deferred costs to loss on sale of asset" in FERC account 421.2. This loss, again, is a write-off.

Xcel's initial and final journal entries are shown below:

Xcel's Initial Journal Entries

Activity	FERC Account	Account Description	Debit	Credit
Record Sale Proceeds	131	Cash or Equivalent	$10,000,000	
	108.3	Retirement Work in Progress - Salvage		$10,000,000
Record Fuel Loss	131	Cash or Equivalent	$211,309	
	182.3	Other Regulatory Assets	$93,232	
	151	Fuel Stock		$304,541
Record Costs Associated with Sale	108.2	Retirement Work in Progress - Cost of Removal	$2,463,930	
	131	Cash or Equivalent		$2,463,930
Retire Assets Sold and Clear Retirement Work Order	108.3	Retirement Work in Progress - Salvage	$10,000,000	
	108	Accumulated Reserve		$871,663
	254	Other Regulatory Liability*		$6,331,578
	108.2	Retirement work in progress-Cost of Removal		$2,463,930
	108	Accumulated Reserve	$5,597,702	
	101	Electric Plant in Service-Equipment		$5,880,592
	101	Electric Plant in Service-Land		$49,939
Record Fuel Loss (Estimated)	131	Cash or Equivalent	$200,000	
	182.3	Other Regulatory Assets	$100,000	
	151	Fuel Stock		$300,000
Net Regulatory Liability and Assets	254	Other Regulatory Liability*	$193,232	
	182.3	Other Regulatory Assets		$193,232

* Net gain to MN customers = $6,138,346

Xcel's Final Journal Entries

Activity	FERC Account	Account Description	Debit	Credit
1. Record Sale Proceeds	131	Cash or Equivalent	$10,434,403.91	
	241	Tax Collections Payable	$9,990.09	
	108.2	Retirement Work in Progress – Cost of Removal	$1,435.00	
	108.3	Retirement Work in Progress – Salvage		$35,000.00
	108.3	Retirement Work in Progress – Salvage		$381,600.00
	108.3	Retirement Work in Progress – Salvage		$10,029,229.00
2. Record Costs Associated with Sale	108.2	Retirement Work in Progress – Cost of Removal	$3,816,823.06	
	131	Cash or Equivalent		$3,816,823.06
3. Retire Assets Sold and Clear Retirement Work Order	108.3	Retirement Work in Progress – Salvage	$10,445,829.00	
	421.1	Gain on Disposition of Property		$6,054,483.76
	108.2	Retirement Work in Progress – Cost of Removal		$3,818,258.06
	108	FERC Account 108 – Accumulated Reserve	$5,334,130.21	
	105	Gas Plant in Service-Equipment-HFU		$5,857,278.27
	101	Gas Plant in Service-Land		$49,939.12
4. Defer Gain to Return to Customers	421.1	Gain on Disposition of Property	$6,054,483.76	
	426.5	Other Deductions	$732,516.24	
	254	Other Regulatory Liability*		$6,787,000.00
5. Record Loss on Sale of Propane	131	Cash or Equivalent	$203,991.48	
	186	Miscellaneous Deferred Debits	$89,997.67	
	151	Fuel Stock		$293,989.15
6. Record Costs of Flaring the Remaining Propane	186	Miscellaneous Deferred Debits	$533,787.79	
	151	Fuel Stock		$533,787.79
7. Write-Off Deferred Costs to Loss on Sale of Asset	421.2	Loss on Disposition of Property	$623,785.46	
	186	Miscellaneous Deferred Debits		$623,785.46

*Other Regulatory Liability represents $6,138,000 for Minnesota customers and $649,000 for North Dakota customers.

A comparison of the final journal entries with the initial journal entries shows that the cost of removal increased from $2.7 million (from the initial journal entries, cost of removal of $2,463,930 plus fuel loss of $300,000) to $3.8 million (from the final journal entries, cost of removal). With regard to the gain from the transaction, Xcel's initial journal entries showed the Minnesota-portion of the gain to be $6,138,000 and the final journal entries show the gain to be $6,054,483.76 – a reduction in gain of $83,516. In noticing the difference in the gain from the transaction, the difference in sale proceeds between the two sets of journal entries should also be acknowledged.

Xcel noted that because of the existing queue of bill credits, the gain from this sale will be issued as direct bill credit to customers in mid-2020.

IV. Staff Analysis

Staff performed the following calculations to verify Xcel's estimate of the gain from the sale:

Retirement Work in Progress - Salvage received:	$10,445,829.00
plus	
FERC 108 Accumulated Reserve:	$5,334,130.21
(total of depreciation expense booked to date)	
Sub-total (represents total value of asset):	$15,779,959.21
less Plant in Service – Land:	$(49,939.12)
less Plant in Service – Equipment:	$(5,857,278.27)
less Removal Costs:	$(3,818,258.06)
equals Gain to Return to Customers:	$6,054,483.76

To remain consistent with Xcel's objective of refunding the originally estimated gain of $6.1 million (or, $6,138,346 to be exact),[3] Xcel has introduced an activity – "other deductions," FERC account 426.5 – on the credit side, and offset that with an activity called "other regulatory liability," FERC account 254. The calculations that add up to the "other regulatory liability" are the sum of the gain to be returned to the Minnesota customers ($6,138,346) and that amount identified with the North Dakota jurisdiction ($649,000). With these actions Xcel incorporates the adidtional amount that needs to be added to the actual gain of $6,054,483.76 so that the accounts reflect that the amount returned to customers is indeed $6,138,346.

Staff is also satisfied that in accordance with the Commission's determination that Xcel shall not net any of propane losses against the gain from the sale, Xcel has recorded the "loss on disposition of property" as write-off in FERC account 421.1.

Staff has informally leaned that the Department of Commerce does not have any concerns about the journal entries.

V. Commission Decision Alternatives

Issue: Should the Commission accept Northern States Power's compliance filing?

Options

1. Accept the compliance filing and

i) direct Xcel to return the gain of $6,138,346 as a direct bill credit, based on the approved apportionment of revenue responsibility from the last general rate case and distributed evenly by customer count in each rate class;

ii) direct Xcel to return the gain by mid-2020; and

iii) submit a report after posting the return to customers.

2. Reject the compliance filing.

[3] Xcel routinely rounds off figures (from the journal entries) in its narrative.