MINNESOTA DEPARTMENT OF COMMERCE

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February 18, 2015

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

RE: **Supplemental Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E002/AI-14-759

Dear Mr. Wolf:

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

> Approval of New Administrative Services Agreements (ASAs) Between Northern States Power Company (Xcel) and Xcel Energy Transmission Development Company, LLC and Xcel Energy Southwest Transmission Company, LLC.

The filing was submitted on September 3, 2014. The petitioner is:

> Paul J Lehman
> Manager, Regulatory Compliance and Filings
> Xcel Energy
> 414 Nicollet Mall, 7th Floor
> Minneapolis, MN 55401
> (612) 330-7529

The Department recommends that the Minnesota Public Utilities Commission approve Xcel's proposal regarding the ASAs but continues to have concerns regarding the Transco initiative. The Department is available to answer any questions the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ JOHN KUNDERT
Financial Analyst
651-539-1740

/s/ NANCY CAMPBELL
Financial Analyst
651-539-1821

/s/ CHRIS SHAW
Rates Analyst
651-539-1823

JK/NC/CS/lt
Attachment

MINNESOTA DEPARTMENT OF COMMERCE

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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

DOCKET NO. E002/AI-14-759

I. SUMMARY OF REQUEST

On September 3, 2014, Northern States Power Company d/b/a Xcel Energy (Xcel, NSP-MN, or the Company) requested approval from the Minnesota Public Utilities Commission (Commission) regarding two proposed Administrative Services Agreements (ASAs), one with Xcel Energy Transmission Development Company, LLC (XETD) and the other with Xcel Energy Southwest Transmission Company, LLC (XEST) (Transcos).

On October 3 and December 2, 2014, the Minnesota Department of Commerce (Department) requested extensions to file its comments in this matter. The Commission approved both of the Department's requests.

On January 16, 2015, the Department filed its comments in this docket. The Department's review of the regulatory requirements for affiliated interest agreements concluded that:

- Xcel's proposal would have no impact on NSP-MN's operating costs and rate levels in 2015. It may have a positive impact when Xcel files future rate cases or TCRs;
- the fully allocated cost-recovery protocol the Company provides in its comments is reasonable;
- the competitive situation criterion does not apply to approval of the ASAs;[1]
- approval of the two ASAs would not apparently impair effective regulation in the near term; and
- the Commission will have ongoing authority over the ASAs.

The Department also included a description of the analysis it normally uses to determine if a proposal is in the public interest. The Department recommended that Xcel provide certain information in its reply comments.

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[1] However, as noted below, the Department recommends that the Minnesota Commission require Commission approval of any specific proposal of an Xcel Transco to build new transmission facilities in Minnesota.

1. A cost/benefit analysis that identifies and quantifies any costs and benefits associated with the ASAs to ratepayers;
2. A cost/benefit analysis including any and all costs and benefits associated with the Company's Transco initiative from the ratepayers' perspective; and
3. A discussion of the possibility of using the TCR as the cost recovery mechanism for revenues deferred as a result of the Transco initiative.

The Department concluded its comments by stating that it would provide its final recommendations to the Commission in this docket after it reviewed Xcel's reply comments.

On January 26, 2015, the Company filed its reply comments.

II. DEPARTMENT ANALYSIS

The Company provided a general discussion of the potential costs and benefits associated with the ASAs from a ratepayer perspective. As Xcel explained in the filing; "A specific cost benefit analysis is difficult to prepare due to the lack of actual scenarios for these proposed ASAs and the uncertainty of the future level of work by Company personnel or resources for the Transcos."[2] The Company's statement highlights the exploratory nature of Xcel's foray into the Transco realm. It appears as though ratepayers are unlikely to be harmed due to Xcel's agreement to use fully distributed cost as the mechanism for the provision of transmission planning and development activities under the ASAs. Further, Minnesota Statute section 216B.48, subd. 6 gives the Commission ongoing authority over the affiliated-interest agreement:

> The commission shall have continuing supervisory control over the terms and conditions of the contracts and arrangements as are herein described so far as necessary to protect and promote the public interest. The commission shall have the same jurisdiction over the modifications or amendment of contracts or arrangements as are herein described as it has over such original contracts or arrangements. The fact that the commission shall have approved entry into such contracts or arrangements as described herein shall not preclude disallowance or disapproval of payments made pursuant thereto, if upon actual experience under such contract or arrangement it appears that the payments provided for or made were or are unreasonable.

Regarding the costs and benefits associated with the Transco initiative from a ratepayer perspective, the Company stated that utility resources would be provided to a Transco affiliate only when those resources are available, and would provide revenues to the utility that would not otherwise be available to offset costs of utility resources.

[2] Reply comments at page 2.

The Company also provided what it defined as a relevant example of the potential benefits associated with Xcel pursuing the construction of transmission facilities under the Transco model. The Company's example suggests that the Transco initiative could reduce transmission costs in the MISO footprint, to the extent that one of the Transcos is lower cost than another alternative. Xcel provided a hypothetical example as to how its costs could be lower than a project built by Ameren. However, since Xcel is using only hypothetical costs, the Department considers the assumption of lower construction costs to be speculative at best.

The Department also notes that rather than a comparison of Ameren to XETD, the correct comparison should be of NSPM costs to XETD costs. Minnesota ratepayers receive benefits of NSPM-owned transmission by receiving: 1) offsetting transmission revenues for shared transmission via the transmission cost recovery rider (TCR) and in rate cases, 2) financial transmission rights (FTRs) and 3) auction revenue rights (ARRs), which they would not receive under a Transco model. Additionally, since MISO does not have a process that reviews or challenges cost overruns, financial accountability in MISO's bidding process is unlikely to occur. Finally, the Department (along with other consumer advocates, end use customers, and Organization of MISO States) are raising concerns before Federal Energy Regulatory Commission (FERC) regarding excessive returns on equity (ROEs) and overall cost of capital, particularly for stand-alone transmission companies, that would be exacerbated if an Xcel Transco is allowed to build transmission in Minnesota without prior Commission review.

For these and other reasons, as noted in the Department's initial comments, the Commission should require Xcel to file a petition with the Commission if an Xcel Transco proposes to build new transmission connected to transmission facilities located in Minnesota. Given the concerns noted above, it is unlikely to be in the public interest for one of Xcel's Transcos to build new transmission in Minnesota rather than the incumbent utility.

Xcel also provided a discussion of the possibility of using the TCR as the cost recovery mechanism per the Department's comments. The Company concluded that it preferred the cost recovery mechanism it proposed in the petition of a rate case deferral mechanism for revenues and costs. After reviewing Xcel's discussion on this matter, the Department agrees that a rate case deferral mechanism is preferable.

Finally, the Company agreed with the Department's statements in its comments that the Commission has ongoing authority over the ASAs and over any effort by XETD to build transmission facilities in NSP-MN's retail service territory.

III. RECOMMENDATION

The Department recommends that the Commission approve the ASAs effective with the date of the Commission's Order in this proceeding, with ongoing reporting requirements and fully allocated cost and revenue credits for ASAs in future Xcel rate cases.

In addition, Commission authorization should be required prior to allowing Xcel's Transco XETD to build new transmission in Minnesota rather than NSPM or another rate-regulated utility in Minnesota. Such approval will help ensure that Minnesota ratepayers do not lose benefits of the existing transmission model (shared revenues, FTRs, and ARRs) under NSPM and to avoid causing Minnesota ratepayers to pay unnecessary higher rates due to a lack of financial accountability for cost overruns in MISO and the excessive ROEs allowed by FERC, including the bonus ROE afforded to Transcos.

/lt

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
Supplemental Comments

Docket No. **E02/AI-14-759**

Dated this 18th day of February 2015

/s/Sharon Ferguson

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