

NOTICE OF COMMENT PERIOD

Issued: April 13, 2018

In the Matter of Northern States Power Company for Approval to Sell Land and Tanks to Flint Hills Resources Pine Bend, LLC

PUC Docket Number(s): E-002/PA-17-529

Comment Period: Initial comment period closes April 30, 2018 at 4:30pm
Reply comment period closes May 4, 2018 at 4:30pm

The Commission may determine that it will not consider comments received after the close of the comment period.

Issue: Should the Commission approve Xcel's March 12, 2018 Compliance Filing for Docket No. E-002/PA-17-529 or should the Commission require Xcel to modify the calculations in its compliance filing to be consistent with its initial petition's calculation?

Topic(s) Open for Comment:

- Should Xcel be permitted to change the calculation of the transaction gain to be retained by Xcel to include a tax gross-up component?
- Are there other issues or concerns related to this matter?

Background: On June 30, 2017, Xcel Energy (Xcel) filed its petition proposing to sell facilities consisting of land and tanks located close to the Flint Hills Resources Pine Bend, LLC facility (Flint Hills) near Rosemount, MN to Flint Hills. The facilities sale was over \$100,000, requiring Commission approval. On February 16, 2018, the Commission issued its Order approving the transaction and granted certain variances to Minnesota Rules, allowing Xcel to pass-back the customer's gain portion through a one-time credit through its fuel clause adjustment mechanism. The Commission further approved Xcel's request to keep a portion of the transaction gain that was calculated on a Net Present Value (NPV) basis of the assets sold. Xcel estimated its portion of the transaction's gain would be \$1.058 million, which included the debt and equity return amounts associated with the assets being sold (see Attachment A, page 1).

In addition, the Commission required Xcel to submit a compliance filing with updated final journal entries for the transaction, including the final selling price of the fuel oil sale. On March 12, 2018, Xcel submitted its compliance filing reflecting the final journal entries for this transaction, as required. As part of its compliance filing, Xcel updated the NPV calculation of its portion of the transaction's gain. Xcel's revised gain estimate was \$1.194 million, which included the debt and equity return amounts associated with the assets being sold. But, in its compliance filing, Xcel modified its gain calculation by including a tax gross-up component, parties have not commented on this proposed change to the calculation of the gain (see Attachment A, page 2).

PUC staff re-calculated Xcel's compliance filing excluding the tax gross-up component, adjusting Xcel's transaction gain from \$1.194 million to \$0.941 million (see Attachment A, page 3). Because of Xcel's inclusion of the tax gross-up, staff sent Xcel an email request asking for Xcel's explanation for inclusion of the tax gross-up (see Attachment B for Xcel response). This modification, if approved, would result in Xcel receiving an additional \$0.253 million from the transaction (amount is approximate).

Filing Requirements: Utilities, telecommunications carriers, official parties, and state agencies are **required** to file documents using the Commission's electronic filing system (eFiling). All parties, participants and interested persons are encouraged to use eFiling: mn.gov/puc, select *eFiling*, and follow the prompts.

Submit Public Comments: Visit mn.gov/puc, select *Speak Up!* to find this docket, and add your comments to the discussion or email your comments to consumer.puc@state.mn.us.

Full Case Record: See all documents filed in this docket via the Commission's website at mn.gov/puc, select *Search eDockets*, enter the year (17) and the docket number (529), select *Search*.

Subscribe to receive email notification when new documents are filed in this docket at mn.gov/puc, select *Subscribe*, and follow the prompts.

Questions about this docket or Commission process and procedure? Contact Commission staff, Bob Brill, at bob.brill@state.mn.us or 651-201-2242.

Change your mailing preferences: Email docketing.puc@state.mn.us or call Jamie Eschbach at 651-201-2204.

To request this document in another format such as large print or audio, call 651.296.0406 (voice). Persons with a hearing or speech impairment may call using their preferred Telecommunications Relay Service or email consumer.puc@state.mn.us for assistance.

Northern States Power Company (D.B.A. Xcel Energy)

Docket No. E-002/PA-17-529

Xcel's Facilities Sale to Flint Hills

Line No.	Description	(2018 - 2026 Amounts in \$000)									
		2018	2019	2020	2021	2022	2023	2024	2025	2026	
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	
		\$	\$	\$	\$	\$	\$	\$	\$	\$	
1	Initial Petition Calculation - Retain Return on Investment (Minnesota Jurisdiction)										
2	<u>Facilities Sold</u>										
3	Ave. Rate Base	1/	403	333	263	192	122	51	(19)	(90)	(160)
4	Debt Component	2/	2.2000%	2.2000%	2.2000%	2.2000%	2.2000%	2.2000%	2.2000%	2.2000%	2.2000%
5	Equity Component	3/	4.8300%	4.8300%	4.8300%	4.8300%	4.8300%	4.8300%	4.8300%	4.8300%	4.8300%
6	Debt Return		9	7	6	4	3	1	0	(2)	(4)
7	Equity Return		19	16	13	9	6	2	(1)	(4)	(8)
8	Total Return on Facilities		28	23	19	13	9	3	(1)	(6)	(12)
9	<u>Fuel Oil Sold</u>										
10	Ave. Rate Base	4/	2,158	2,158	2,158	2,158	2,158	2,158	2,158	2,158	2,158
11	Debt Component	2/	2.2000%	2.2000%	2.2000%	2.2000%	2.2000%	2.2000%	2.2000%	2.2000%	2.2000%
12	Equity Component	3/	4.8300%	4.8300%	4.8300%	4.8300%	4.8300%	4.8300%	4.8300%	4.8300%	4.8300%
13	Debt Return		47	47	47	47	47	47	47	47	47
14	Equity Return		104	104	104	104	104	104	104	104	104
15	Total Return on Facilities		151	151	151	151	151	151	151	151	151
16	<u>Debt and Equity on:</u>										
17	Facilities Sold		28	23	18	13	9	3	(1)	(6)	(12)
18	Fuel Oil		152	152	152	152	152	152	152	152	152
19	Total		180	175	170	165	161	155	151	146	140
20	Net Present Value at 7.03%		1,058								

1/ Xcel's Initial Petition, Attachment D, p. 2, ln 6.

2/ Xcel's Initial Petition, Attachment D, p. 2, lns. 44-45.

3/ Xcel's Initial Petition, Attachment D, p. 2, lns. 46-47.

4/ Xcel's Initial Petition, Attachment D, p. 3, ln 6.

Northern States Power Company (D.B.A. Xcel Energy)

Docket No. E-002/PA-17-529

Xcel's Facilities Sale to Flint Hills

Line No.	Description	(2018 - 2026 Amounts in \$000)									
		2018	2019	2020	2021	2022	2023	2024	2025	2026	
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	
		\$	\$	\$	\$	\$	\$	\$	\$	\$	
<u>Xcel's Compliance Filing Calculation - Retain Return on Investment (Minnesota Jurisdiction)</u>											
1	<u>Facilities Sold</u>										
2	Ave. Rate Base	1/	403	333	263	192	122	51	(19)	(90)	(160)
3	Debt Component	2/	2.2000%	2.2000%	2.2000%	2.2000%	2.2000%	2.2000%	2.2000%	2.2000%	2.2000%
4	Equity Component	3/	4.8300%	4.8300%	4.8300%	4.8300%	4.8300%	4.8300%	4.8300%	4.8300%	4.8300%
5	Debt Return		9	7	6	4	3	1	0	(2)	(4)
6	Equity Return		19	16	13	9	6	2	(1)	(4)	(8)
7	Total Return on Facilities		28	23	19	13	9	3	(1)	(6)	(12)
8	Equity Return		19	16	13	9	6	2	(1)	(4)	(8)
9	Tax Gross-Up		40.3351%	40.3351%	40.3351%	40.3351%	40.3351%	40.3351%	40.3351%	40.3351%	40.3351%
10	Tax Gross-up Amount		8	7	4	4	2	1	(1)	(2)	(2)
11	Total Debt, Equity and Tax Gross-up Amount		36	30	23	17	11	4	(2)	(8)	(14)
12	<u>Fuel Oil Sold</u>										
13	Ave. Rate Base	4/	1,892	1,892	1,892	1,892	1,892	1,892	1,892	1,892	1,892
14	Debt Component	2/	2.2000%	2.2000%	2.2000%	2.2000%	2.2000%	2.2000%	2.2000%	2.2000%	2.2000%
15	Equity Component	3/	4.8300%	4.8300%	4.8300%	4.8300%	4.8300%	4.8300%	4.8300%	4.8300%	4.8300%
16	Debt Return		42	42	42	42	42	42	42	42	42
17	Equity Return		92	92	92	92	92	92	92	92	92
18	Total Return on Facilities		134	134	134	134	134	134	134	134	134
19	Equity Return		92	92	92	92	92	92	92	92	92
20	Tax Gross-Up		40.3351%	40.3351%	40.3351%	40.3351%	40.3351%	40.3351%	40.3351%	40.3351%	40.3351%
21	Tax Gross-up Amount		36	36	36	36	36	36	36	36	36
22	Total Debt, Equity and Tax Gross-up Amount		170	170	170	170	170	170	170	170	170
23	<u>Debt, Equity, and Tax Gross-up on:</u>										
24	Facilities Sold		28	23	18	13	9	3	(1)	(6)	(12)
25	Fuel Oil		134	134	134	134	134	134	134	134	134
26	Tax Gross-up Amount		44	43	40	40	38	37	35	34	34
27	Total		206	200	192	187	181	174	168	162	156
28	Net Present Value at 7.03%		<u>1,194</u>								

1/ Xcel's Compliance Filing, Attachment B, p. 2, In 6.

2/ Xcel's Compliance Filing, Attachment B, p. 2, Ins. 44-45.

3/ Xcel's Compliance Filing, Attachment B, p. 2, Ins. 46-47.

4/ Xcel's Compliance Filing, Attachment B, p. 3, In 6.

Northern States Power Company (D.B.A. Xcel Energy)

Docket No. E-002/PA-17-529

Xcel's Facilities Sale to Flint Hills

Line No.	Description	(2018 - 2026 Amounts in \$000)									
		2018	2019	2020	2021	2022	2023	2024	2025	2026	
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	
		\$	\$	\$	\$	\$	\$	\$	\$	\$	
<u>Xcel's Compliance Filing Calculation Without Tax Gross-up - Retain Return on Investment (Minnesota Jurisdiction)</u>											
1	<u>Facilities Sold</u>										
2	Ave. Rate Base	1/	403	333	263	192	122	51	(19)	(90)	(160)
3	Debt Component	2/	2.2000%	2.2000%	2.2000%	2.2000%	2.2000%	2.2000%	2.2000%	2.2000%	2.2000%
4	Equity Component	3/	4.8300%	4.8300%	4.8300%	4.8300%	4.8300%	4.8300%	4.8300%	4.8300%	4.8300%
5	Debt Return		9	7	6	4	3	1	0	(2)	(4)
6	Equity Return		19	16	13	9	6	2	(1)	(4)	(8)
7	Total Return on Facilities		28	23	19	13	9	3	(1)	(6)	(12)
8	<u>Fuel Oil Sold</u>										
9	Ave. Rate Base	4/	1,892	1,892	1,892	1,892	1,892	1,892	1,892	1,892	1,892
10	Debt Component	2/	2.2000%	2.2000%	2.2000%	2.2000%	2.2000%	2.2000%	2.2000%	2.2000%	2.2000%
11	Equity Component	3/	4.8300%	4.8300%	4.8300%	4.8300%	4.8300%	4.8300%	4.8300%	4.8300%	4.8300%
12	Debt Return		42	42	42	42	42	42	42	42	42
13	Equity Return		91	91	91	91	91	91	91	91	91
14	Total Return on Facilities		133	133	133	133	133	133	133	133	133
15	<u>Debt and Equity on:</u>										
16	Facilities Sold		28	23	19	13	9	3	(1)	(6)	(12)
17	Fuel Oil		134	134	134	134	134	134	134	134	134
18	Total		162	157	153	147	143	137	133	128	122
19	Net Present Value at 7.03% Without Tax Gross-up		941								
20	Net Present Value at 7.03% With Tax Gross-up		1,194								
21	Difference		(253)								

1/ Xcel's Compliance Filing, Attachment B, p. 2, ln 6.

2/ Xcel's Compliance Filing, Attachment B, p. 2, lns. 44-45.

3/ Xcel's Compliance Filing, Attachment B, p. 2, lns. 46-47.

4/ Xcel's Compliance Filing, Attachment B, p. 3, ln 6.

From: [Brill, Bob \(PUC\)](#)
To: [Bria Shea \(bria.e.shea@xcelenergy.com\)](mailto:bria.e.shea@xcelenergy.com)
Cc: [Harding, Bob \(PUC\)](#); [Alonso, Jorge \(PUC\)](#); [Johnson, Mark \(COMM\)](#); [Rakow, Stephen \(COMM\)](#); [Medhaug, Susan \(COMM\)](#)
Subject: Docket No. 17-529 - Compliance Filing for Xcel's Sale of Facilities to Flint Hills
Date: Wednesday, March 14, 2018 11:16:00 AM

Bria,

In response to Xcel's Docket No. 17-529 - Compliance Filing for Sale of facilities to Flint Hills, staff is requesting clarification to the following:

- 1) Xcel's Compliance Filing, Attachment B, Page 1 reflects a Pre-tax Gain on Sale of \$4.245 million (Total Company) and a Pre-tax Gain on the Sale of \$3.123 million (MN Jurisdiction) for a difference of \$1.122 million. On Attachment A, Xcel proposes to record the \$1.122 million amount to FERC Account 108 – Accumulated Reserve for Depreciation. Please provide an explanation as to why Xcel is accounting for the \$1.122 million amount in this manner, as opposed to passing the \$1.122 gain back to Xcel's other jurisdictions, such as North and South Dakota.
- 2) Xcel's Initial Petition dated June 30, 2017 calculates Xcel's Retain Return on Investment based on two components:
 - a) Asset Debt & Equity Return
 - b) Fuel & Debt & Equity Return

In its Compliance Filing, Xcel added a third component – Equity Tax Gross-up. Please provide an explanation and the rationale for why Xcel added this additional component, considering that the assets have been sold and Xcel will not be required to pay federal income taxes on the asset.

Please provide your responses to the above clarification questions by the close of business March 21, 2018. If there are any questions, please do not hesitate to contact me.

Bob Brill

Rate Analyst

Minnesota Public Utilities Commission

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Xcel Energy

Docket No.: E002/M-17-529

Response To: MN Public Utilities Information Request No. 1
Commission

Requestor: Bob Brill

Date Received: March 14, 2018

Question:

Xcel's Compliance Filing, Attachment B, Page 1 reflects a Pre-tax Gain on Sale of \$4.245 million (Total Company) and a Pre-tax Gain on the Sale of \$3.123 million (MN Jurisdiction) for a difference of \$1.122 million. On Attachment A, Xcel proposes to record the \$1.122 million amount to FERC Account 108 – Accumulated Reserve for Depreciation. Please provide an explanation as to why Xcel is accounting for the \$1.122 million amount in this manner, as opposed to passing the \$1.122 gain back to Xcel's other jurisdictions, such as North and South Dakota.

Response:

Standard FERC guidance on the sale of plant assets requires gains or losses to be booked to FERC Account 108 – Accumulated Reserve for Depreciation, unless otherwise directed by the utility's governing commission. Now that the Minnesota Commission has approved the sale and the sale has closed, the Company will begin working with the other state commissions to determine how the gain related to their respective jurisdictions will be recorded. We note that the \$3.123 million gain was calculated solely for the Minnesota jurisdiction and any potential refunds to North or South Dakota would not impact the amount refunded to Minnesota customers.

Preparer: Jessica Helland/ Amber Hedlund

Title: Manager / Regulatory Case Specialist

Department: Capital Asset Accounting/ NSPM Regulatory Affairs

Telephone: 612.330.7861/ 612.337.2268

Date: March 20, 2018

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Xcel Energy

Docket No.: E002/M-17-529

Response To: MN Public Utilities Information Request No. 2
Commission

Requestor: Bob Brill

Date Received: March 14, 2018

Question:

Xcel's Initial Petition dated June 30, 2017 calculates Xcel's Retain Return on Investment based on two components:

- a) Asset Debt & Equity Return
- b) Fuel & Debt & Equity Return

In its Compliance Filing, Xcel added a third component – Equity Tax Gross-up. Please provide an explanation and the rationale for why Xcel added this additional component, considering that the assets have been sold and Xcel will not be required to pay federal income taxes on the asset.

Response:

During preparation of the compliance filing, we identified a correction to the return on investment calculation for the portion of the gain that Xcel Energy is retaining. We inadvertently omitted the tax gross-up on the equity portion of the return. As originally proposed, the intention was to calculate “the amount of the return on the assets and fuel inventory that the Company would have earned if the tanks were not sold and instead the Company maintained ownership of the one operational storage tank and associated facilities through the end of its Commission approved remaining life.” Petition at page 2. If the tanks and associated facilities had continued to be in service, the equity portion of the return on investment would be grossed up for taxes. Below are the calculations for the revenue requirements of the return on investment:

$$\begin{aligned}\text{Debt Return} &= (\text{Asset} + \text{Fuel Rate Base}) \times \text{Weighted Cost of Debt} \\ \text{Equity Return} &= (\text{Asset} + \text{Fuel Rate Base}) \times \text{Weighted Cost of Equity} \\ \text{Equity Tax Gross-up} &= \text{Equity Return} \times \text{Tax Gross-up Factor } [T/(1-T)]\end{aligned}$$

If we would have retained the assets, we would have collected revenues to cover the cost debt, the cost of equity, the cost of expenses (book depreciation, deferred taxes, and property taxes), and an additional amount to pay taxes on the revenue received (the tax gross-up). A portion of the tax gross-up is for taxes on the equity return. The debt return does not have a tax gross-up as debt interest is deductible for taxes. It is true that we will no longer retain these assets; therefore we won't have things like depreciation expense and tax expense related to these assets in the future. However, as Xcel Energy is retaining the portion that reflects the debt and equity return, we believe it is appropriate to include the equity tax gross-up as we will have to pay taxes today on this gain.

In the compliance filing we included updated book values as of the transaction date and the equity tax gross-up which is offset by lower tax rates due to tax reform. Below is a summary of these changes on Xcel Energy's portion of the gain:

Summary of Xcel's Portion of the Gain (\$ in Millions):

As of 1/2/2018 Compliance Update		\$1.057
Update for lower book values	- \$0.122	\$0.935
Include Equity Tax Gross-up	+ \$0.453	\$1.388
Adjust for Tax Reform	- \$0.194	\$1.194

We apologize for the oversight in our initial calculation and are willing to work with parties on additional refinements if there is any disagreement in how we have calculated this.

Preparer: Joanna Yugo
Title: Principal Rate Analyst
Department: Revenue Analysis
Telephone: 612.215.4633
Date: March 20, 2018