

Staff Briefing Papers

Meeting Date March 31, 2022 Agenda Item 1*

Company Northern States Power Company d/b/a Xcel Energy (Xcel, Company)

Docket No. **E-002/M-19-688**

In the Matter of the Petition of Northern States Power Company, dba Xcel Energy,
for Approval of True-up Mechanisms

E-002/GR-92-1185, G-002/GR-92-1186 and E,G-002/M-21-369

In the Matter of Northern States Power Company, dba Xcel Energy, Annual
Incentive Compensation Report

E-002/M-21-815

In the Matter of the Petition for Approval of a Credit Mechanism to Return to
Customers Department of Energy Settlement Payments

- Issues
1. Should the Commission approve Xcel's 2020 Property Tax True-Up Report and Refund Plan?
 2. Should the Commission approve Xcel's 2020 Annual Incentive Compensation Report and Refund Plan?
 3. Should the Commission approve Xcel's Proposal to Refund the Department of Energy's twelfth settlement payment?

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

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Relevant Documents

Date

Docket 19-688

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|---|-----------------|
| PUC - Order Approving True Ups and Requiring Xcel to Withdraw its Notice of Change in Rates and Interim Rate Petition | March 13, 2020 |
| Xcel Energy – Compliance Filing – 2020 Property Tax True-Up Report and Combined Refund Plan | July 1, 2021 |
| Department of Commerce – Comments | July 14, 2021 |
| Xcel Energy – Reply Comments | August 10, 2021 |

Docket Nos. 92-1185, 92-1186 and 21-369

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| Xcel Energy – 2020 Incentive Compensation Report | May 28, 2021 |
| Department of Commerce – Letter | June 28, 2021 |

Docket 21-815

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|---|-------------------|
| Xcel Energy – Petition for Approval of a Credit Mechanism to Return to Customers Department of Energy Settlement Payments (Public and Trade Secret) | November 24, 2021 |
| Department of Commerce – Comments | December 23, 2021 |
| Xcel Energy – Reply Comments (Public and Trade Secret) | January 10, 2022 |
| Department of Commerce – Response to Reply Comments | January 21, 2022 |

I. Statement of the Issues

- Should the Commission approve Xcel's 2020 Property Tax True-Up Report and Refund Plan?
- Should the Commission approve Xcel's 2020 Annual Incentive Compensation Report and Refund Plan?
- Should the Commission approve Xcel's Proposal to Refund the Department of Energy's twelfth settlement payment?

II. Background

Northern States Power Company, dba Xcel Energy (Xcel or the Company) has proposed issuing the following refunds in the third quarter of 2022:

A. Refund for 2020 Property Tax True Up, Docket 19-688

The Commission's March 13, 2020 Order approved Xcel's request to extend the property tax true-up established in Xcel's 2016 multiyear rate plan (MYRP) for all customer classes for an additional year. Xcel's July 1, 2021 compliance filing for 2020 shows that the property tax amount included in the base rates were \$12,251,763 greater than the actual amount paid. Xcel's filing proposes to refund the difference. On July 14, 2021, the Department recommended that Xcel's property tax refund proposal be approved.

B. Refund for Annual Incentive Program (AIP), Dockets 92-1185, 92-1186 and 21-369

The Commission's December 30, 1993 Order in Docket G-002/GR-92-1186 and its January 14, 1994 Order in Docket E-002/GR-92-1185 instructed Xcel to make an annual compliance filing that reconciles the difference between allowed incentive compensation paid and the amounts included in both electric and gas base rates. Xcel's May 28, 2021 compliance filing for 2020 showed that the Xcel Electric actual allowed incentive compensation paid was \$2,101,585 lower than the incentive compensation amount included in base rates. Xcel's filing proposed to refund this difference. On June 28, 2021, the Department recommended that Xcel's incentive compensation refund proposal be approved.

C. Refund for 12th payment from Department of Energy Settlement Docket 21-815

On November 24, 2021, Xcel submitted a compliance filing informing the Commission that the twelfth refund, for the period of January 1, 2020 to December 31, 2020, pertaining to the Company's settlement with the DOE totaled \$16,550,164 (\$12,118,943 Minnesota-jurisdiction). To return these funds to ratepayers and consistent with the handling of some previous DOE refunds, Xcel proposed to make a one-time refund in the form of a bill credit. On December 23, 2021, the Department recommended that Xcel's refund proposal for the DOE nuclear settlement monies be approved.

III. Property Tax True-Up, Docket No. 19-688

The Commission's March 13, 2020 Order approved Xcel's request to extend the property tax true-up established in Xcel's 2016 multiyear rate plan (MYRP) for all customer classes for an additional year. Xcel's July 1, 2021 compliance filing for 2020 shows that the property tax amount included in the base rates was \$12,251,763 greater than the actual amount paid. Xcel's filing proposes to refund the difference. On July 14, 2021, the Department recommended that Xcel's property tax refund proposal be approved.

A. Xcel Energy – Initial Filing

In its July 1, 2020 filing, Xcel stated that the baseline property tax expense established in this docket was \$163.1 million, of which \$11.5 million is rider-related and must be adjusted out to avoid double-counting. Therefore, the adjusted baseline amount of property tax in base rates is \$151.6 million.¹

Actual 2020 Minnesota \$155.0 million electric jurisdictional property taxes minus the \$15.7 million collected through riders totals an adjusted \$139.3 million for comparison to the adjusted baseline amount.²

Xcel proposed to refund the \$12.3 million difference between approved and actual amounts and add 4.31% in interest. Xcel estimated interest to be \$290,793 which increases the total property tax refund to \$12,542,557.

As reflected in Table 1, the average residential ratepayer will receive a \$4.45 refund.

Table 1 - Property Tax Refund Allocation with Interest, by class

| Customer Class | 2018 Property Tax Allocator (\$000) | Property Tax Refund Allocator | Refund Allocation | 2020 Estimated Average Customers | 2020 Estimated Refund per Customer |
|--------------------------------|-------------------------------------|-------------------------------|-------------------|----------------------------------|------------------------------------|
| Residential | \$84,148 | 41.94% | \$5,260,830 | 1,181,917 | \$4.45 |
| Commercial Non-Demand | \$7,235 | 3.61% | \$452,327 | 88,226 | \$5.13 |
| Commercial & Industrial Demand | \$106,729 | 53.20% | \$6,672,587 | 49,624 | \$134.46 |
| Lighting | \$2,508 | 1.25% | \$156,812 | 27,585 | \$5.68 |
| Total | \$200,621 | 100.00% | \$12,542,557 | 1,347,353 | |

In its filing, Xcel committed to, within 30 days of completing the refunds, make compliance confirming that the refunds have been issued.

¹ Initial Compliance Filing, Attachment B, Page 2, Line 5.

² Initial Compliance Filing, Attachment B, Page 3, Line 5.

B. Department of Commerce – Comments

The Department reviewed Xcel's proposed \$12,542,557 refund and found it to be consistent with the authorized refund methodologies. Additionally, the Department found the 4.31% interest rate to be reasonable.

C. Xcel Energy – Reply Comments

Xcel's reply comments summarized previous Company and Department comments.

IV. Annual Incentive Program (AIP), Docket 21-369

The Commission's December 30, 1993 Order in Docket G-002/GR-92-1186 and its January 14, 1994 Order in Docket E-002/GR-92-1185 instructed Xcel to make an annual compliance filing that reconciles the difference between allowed incentive compensation paid and the amounts included in both electric and gas base rates. Xcel's May 28, 2021 compliance filing for 2020 showed that the Xcel Electric actual paid incentive compensation was \$2,101,585 lower than the incentive compensation amount included in base rates. Xcel's filing proposed to refund this difference. On June 28, 2021, the Department recommended that Xcel's incentive compensation refund proposal be approved.

A. Xcel Energy – Initial Filing

In its May 28, 2021 filing, Xcel stated that the incentive compensation currently included in base rates is \$21,291,285 for the electric utility and \$927,885 for the gas utility³ and that the amounts paid out to employees that are eligible for recovery were \$19,189,700 for the electric utility and \$1,238,228 for the gas utility.⁴

Since Xcel must refund any eligible incentive compensation that is not paid out, electric customers are due a \$2,101,585 refund plus \$37,521 in interest for a total refund of \$2,139,106. No refund is due to gas customers.

As reflected in Table 2, the average residential ratepayer will receive a \$0.66 refund.

³ Initial Compliance Filing, Attachment C, Line 3.

⁴ Initial Compliance Filing, Attachment C, Line 2.

Table 2 - Incentive Compensation Refund Allocation, by class

| Customer Class | 2019 Ordered Revenue (\$000) | Revenue Refund Allocator | Refund Allocation | May 20-Apr 21 Estimated Average Customers | 2020 Estimated Refund per Customer |
|--------------------------------|------------------------------|--------------------------|-------------------|---|------------------------------------|
| Residential | \$1,175,496 | 36.74% | \$785,820 | 1,181,917 | \$0.66 |
| Commercial Non-Demand | \$112,357 | 3.51% | \$75,112 | 88,226 | \$0.85 |
| Commercial & Industrial Demand | \$1,883,324 | 58.86% | \$1,259,004 | 49,624 | \$25.37 |
| Lighting | \$28,676 | 0.90% | \$19,170 | 27,585 | \$0.69 |
| Total | \$3,199,853 | 100.000% | \$2,139,106 | 1,347,354 | |

B. Department of Commerce – Comments

The Department reviewed Xcel's filing, verified that the incentive compensation included in current base rates is \$21,291,285 for the electric utility and \$927,885 for the gas utility, and that electric ratepayers are due a \$2,101,585 refund. As a result, the Department recommended that the Commission accept the Company's 2020 Incentive Compensation Annual Report and order the Company to refund the \$2,101,585 plus interest, computed monthly, using the prime rate of 3.25%.

C. Xcel Energy – Reply Comments

Xcel's reply comments summarized previous Company and Department comments. The Company proposed a combined refund of the 2020 property tax true up, 2020 annual incentive program and the twelfth DOE settlement payment for more efficient processing.

V. Department of Energy Settlement, Docket 21-815

On November 24, 2021, Xcel submitted a compliance filing informing the Commission that the twelfth refund, for the period of January 1, 2020 to December 31, 2020, pertaining to the Company's settlement with the DOE totaled \$16,550,164 (\$12,118,943 Minnesota-jurisdiction). To return these funds to ratepayers and consistent with the handling of some previous DOE refunds, Xcel proposed to make a one-time refund in the form of a bill credit. On December 23, 2021, the Department recommended that Xcel's refund proposal for the DOE nuclear settlement monies be approved.

A. Xcel Energy – Initial Filing

Consistent with the handling of some previous DOE-related refunds, Xcel has placed the \$12,118,943 in an interest-bearing account that currently earns 0.05% annually. The Company has proposed to refund the \$12,118,943 in the form of a one-time bill credit. The credit will be based on the customers' most recent 12 months of usage and will include the actual amount of

interest earned by the Company, minus any bank fees or charges on these funds. The credit will be issued in conjunction with the other two refunds discussed in these briefing papers.

As reflected in Table 3, the average residential ratepayer will receive a \$3.12 refund.

Table 3 - DOE Refund Allocation, by class

| Customer Class | Revenue Refund Allocator | Refund Allocation | 2020 Estimated Average Customers | 2020 Estimated Refund per Customer |
|--------------------------------|--------------------------|-------------------|----------------------------------|------------------------------------|
| Residential | 30.60% | \$3,707,900 | 1,188,704 | \$3.12 |
| Commercial Non-Demand | 3.09% | \$374,467 | 88,252 | \$4.24 |
| Commercial & Industrial Demand | 65.96% | \$7,993,400 | 49,928 | \$160.10 |
| Lighting | 0.36% | \$43,176 | 27,690 | \$1.56 |
| Total | 100.00% | \$12,118,943 | 1,354,574 | \$8.95 |

B. Department of Commerce – Comments

The Department reviewed Xcel's filing, verified Xcel's refund calculation, and recommended that Company issue a one-time \$12,118,943 credit. The Department typically recommends refunds be credited to ratepayers within 60 days of the Commission Order so reply comments were requested to allow the Company to explain why the refund of this DOE payment would be delayed until the second half of 2022.

C. Xcel Energy – Reply Comments

The Company explained that it can only process one refund at a time and each refund takes approximately 8 weeks to calculate and post to the customer accounts. The DOE payment would be delayed because of refunds that are already approved and scheduled to be processed in 2022.

D. Department of Commerce – Response to Reply Comments

The Department recommended that, in combination with the other two refunds, the DOE refund be issued no later than the third quarter of 2022.

VI. Staff Analysis

Staff agrees with the Department recommendation to approve the 2020 property tax true up of \$12,542,557, 2020 annual incentive of \$2,101,585 and twelfth DOE settlement payment of \$12,118,943. These refunds should be combined and paid out to rate payers no later than the third quarter of 2022.

Since Xcel had other planned refunds ahead of the ones in this proceeding, the Commission may to confirm the anticipated timing of the proposed refunds.

VII. Decision Alternatives

Property Tax Refund

1. Approve Xcel's proposed \$12,542,557 refund, including interest. (Xcel, DOC)
2. Do not approve Xcel's proposed \$12,542,557 refund.

Property Tax Refund Interest Rate

3. Order that a 4.31% interest rate be applied to the Property Tax Refund. (Xcel, DOC)
4. Order that a different interest rate be used.

Annual Incentive Compensation Report

5. Accept Xcel's Annual Incentive Compensation Report. (Xcel, DOC)
6. Do not accept Xcel's Annual Incentive Compensation Report.

Annual Incentive Compensation Refund Amount

7. Approve Xcel's proposed \$2,101,585 refund. (Xcel, DOC)
8. Do not approve Xcel's proposed \$2,101,585 refund.

Annual Incentive Compensation Refund Interest Rate

9. Order that a 3.25% interest rate be applied to the Annual Incentive Compensation Refund. (Xcel, DOC)
10. Order that a different interest rate be used.

DOE Refund Amount

11. Approve Xcel's proposed \$12,118,943 refund. (Xcel, DOC)
12. Do not approve Xcel's proposed \$12,118,943 refund.

Compliance Filing

13. Order Xcel to make a compliance filing, within 30 days after completing the refunds, that confirms their issuance. (Xcel)

m Staff Briefing Papers for Docket No. E-002/M-19-688; E-002/GR-92-1185, G-002/GR-92-1186 and E,G-002/M-21-369; and E-002/M-21-815 on March 31, 2022