

Staff Briefing Papers

Meeting Date December 20, 2018 Agenda Item 8**

Company Northern States Power Company d/b/a Xcel Energy

Docket Nos. **E,G-002/M-18-121, E-002/GR-92-1185, G-002/GR-92-1186**

In the Matter of the Petition of Northern States Power Company, doing business as Xcel Energy (Xcel Energy) for Approval of its Annual Report of its 2017 Incentive Compensation Plan

In the Matter of the Application of Northern States Power Company for Authority to Increase its Rates for Electric Service in the State of Minnesota

In the Matter of the Petition of Northern States Power Gas Utility for Authority to Change its Schedule of Gas Rates for Retail Customers within the State of Minnesota

Issues Should the Commission accept Xcel Energy's Annual Report of its 2017 Incentive Compensation Plan as filed, or require Xcel Energy to refund \$1,957,622 to its electric ratepayers?

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Relevant Documents are listed on the next page.

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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.



Relevant Documents

Date

Docket 18-121

Xcel Energy – Initial Filing (TS)

May 31, 2018

Department of Commerce – Comments

August 1, 2018

Xcel Energy – Reply Comments

August 13, 2018

Docket 17-429

Commission - Order Requiring Incentive Compensation Refund,
Docket Nos. E-002/GR-92-1185, G-002/GR-92-1186, E,G-002/M-17-429

August 13, 2018

I. Statement of the Issues

Should the Commission accept Xcel Energy's Annual Report of its 2017 Incentive Compensation Plan as filed, or require Xcel Energy to refund \$1,957,622 to its electric ratepayers?

II. Background and Introduction

On May 31, 2018, Northern States Power Company, d/b/a Xcel Energy (Xcel Energy or Xcel) filed its Annual Report of its Incentive Compensation Plan for 2017 (Annual Report) in compliance with the Commission's December 30, 1993 Order in Docket No. G-002/GR-92-1186 and its January 14, 1994 Order in Docket No. E-002/GR-92-1185. In its Annual Report, Xcel Energy stated:

Using the payout comparison methodology we have used in our past annual reports, our total incentive costs exceeded recovery by approximately \$2.68 million in the electric utility jurisdiction, and approximately \$0.23 million in the natural gas utility jurisdiction. Therefore, no funds are eligible for refund to either electric or natural gas customers.

On August 1, 2018, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed comments on Xcel Energy's Annual Report. The Department concluded that, following the comparison methodology recently approved by the Commission in Docket No. E,G-002/M-17-429, there is a refund due Xcel Energy's electric ratepayers of \$1,957,622.

On August 13, 2018, Xcel Energy filed *Reply Comments* in the instant docket. With respect to the Department's recommendation that Xcel Energy be required to refund its electric ratepayers \$1,957,622 related to its 2017 incentive compensation plan, Xcel stated:

The Company understands that such a refund would be in line with the Commission's recent decision in the Company's 2016 AIP Annual Report proceeding (Order issued August 13, 2018 in Docket No. E,G002/M-17-429). We do not reiterate here the arguments we made in the 2016 Annual Report proceeding; however, the Company continues to believe that the best method of determining whether a refund is owed to customers relating to AIP is to compare the amount of AIP approved in base rates to the total amount of incentive compensation paid. Because we paid out more in AIP than we collected in base rates, we conclude that no refund is due with respect to AIP paid for Plan year 2017. We believe our approach is consistent with the intent of prior Commission Orders and with sound policy regarding incentives.

Also on August 13, 2018, the Commission issued its ORDER REQUIRING INCENTIVE COMPENSATION REFUND (17-429 Order) for Xcel Energy's 2016 Incentive Compensation Plan, Docket Nos. E-002/GR-92-1185, G-002/GR-92-1186, and E,G-002/M-17-429. In its 17-429 Order, the Commission agreed with the Department that the proper comparison for calculating

whether a refund is due is between the test-year amount used to set base rates and the amount actually paid out that is eligible for recovery from ratepayers—i.e., excluding incentive pay beyond 15% of an individual’s base pay. Accordingly, the Commission required Xcel to refund electric ratepayers \$1,278,656 for 2016.

III. Parties’ Positions

A. Xcel

According to Xcel Energy, the amount of 2017 incentive compensation allocated to the State of Minnesota electric retail jurisdiction totaled approximately \$22.66 million, which exceeds the approximately \$19.98 million that is illustrative of the amount recovered through base rates. The amount of 2017 incentive compensation allocated to the State of Minnesota natural gas retail jurisdiction totaled approximately \$1.16 million, which exceeds the approximately \$0.93 million that is built into retail rates.

Xcel requested that the Commission accept its Annual Report of its 2017 Incentive Compensation Plan.

As stated above, while Xcel understands that a refund to electric customers would be in line with the Commission’s recent decision in the Company’s 2016 AIP Annual Report proceeding,¹ Xcel believes that since it paid out more in AIP than it collected in base rates, no refund is due with respect to AIP paid for Plan year 2017. Xcel believes its approach is consistent with the intent of prior Commission Orders and with sound policy regarding incentives.

B. Department

The Department concluded that Xcel Energy used the wrong comparison in support of the Company’s assertion that it does not have unpaid earned incentive compensation that exceeds the amount recoverable in base rates, as it relates to the electric utility. The Department stated:

As the Commission concluded at its July 19, 2018 Agenda Meeting regarding Docket No. E,G002/M-17-429 (the 17-429 docket), the more appropriate comparison is between the “amount eligible for recovery (excluding AIP [Annual Incentive Plan] over 15 percent of base pay)” and the “amount approved in base rates.” Using information provided in Attachment C to the Company’s 2017 Incentive Compensation Annual Compliance Report, and following the methodology approved by the Commission in its recent decision in the 17-249 docket, the “amount eligible for recovery (excluding AIP over 15 percent of base pay)” from electric ratepayers in 2017 was \$18,020,500. When compared to the \$19,978,122 amount approved in base rates, there is a ratepayer refund due of

¹ Order issued August 13, 2018 in Docket No. E,G-002/M-17-429.

\$1,957,622. A similar comparison for the gas utility shows that there is no ratepayer refund to the gas ratepayers for the year 2017.

The Department recommended that the Commission accept the Company's Annual Report of its Incentive Compensation Plan for 2017 with the exception that the Company must refund to electric ratepayers \$1,957,622, as a result of over-recovering the amount eligible for recovery.

IV. Staff Analysis

Attachment C to Xcel Energy's Annual Report of its Incentive Compensation Plan for 2017 shows that the State of Minnesota jurisdictional amount of Annual Incentive Plan (AIP) paid out for 2017 and eligible for recovery (i.e., excluding AIP over 15% of base pay) for its Minnesota electric operations was 18,020,500. This is \$1,957,622 less than the amount approved in base rates.

If the Commission wishes to be consistent with its actions in the 17-429 Order, it should adopt the Department's recommendation and require Xcel Energy to refund \$1,957,622 to its electric ratepayers.

V. Decision Options

1. Accept Xcel Energy's Annual Report of its 2017 Incentive Compensation Plan and do not require a refund with respect to AIP paid for Plan year 2017. [Xcel]
2. Accept Xcel Energy's 2017 Annual Report as being compliant with the Commission's Order, with one exception. Require Xcel Energy to refund \$1,957,622 to electric ratepayers. [Department]