

Staff Briefing Papers

| | | | |
|--------------|--|--|-----------------|
| Meeting Date | December 12, 2019 | | Agenda Item 6** |
| Company | Northern States Power Company d/b/a Xcel Energy (Xcel, Company) | | |
| Docket No. | E-002/GR-19-564 | | |
| | In the Matter of the Application of Northern States Power Company, dba Xcel Energy, for Authority to Increase Rates for Electric Service in the State of Minnesota | | |
| Issues | Should this filing be accepted? If so, should the proposed rates be suspended, this matter referred to the Office of Administrative Hearings, and interim rates set as requested by the Company? | | |
| Staff | Jorge Alonso | jorge.alonso@state.mn.us | 651-201-2258 |
| | Jason Bonnett | jason.bonnett@state.mn.us | 651-201-2235 |
| | Ganesh Krishnan | ganesh.krishnan@state.mn.us | 651-201-2215 |
| | Ray Hetherington | raymond.hetherington@state.mn.us | 651-201-2203 |
| | Robert Manning | robert.manning@state.mn.us | 651-201-2197 |
| | Andy Bahn | andrew.bahn@state.mn.us | 651-201-2249 |
| | Michelle Rosier | michelle.rosier@state.mn.us | 651-201-2212 |
| | Charley Bruce | charley.bruce@state.mn.us | 651-201-2251 |

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.

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

Xcel Energy

Initial Filing, General Rate Petition

November 1, 2019

Schedules for Direct Testimony of Richard Schrubbe

November 7, 2019

Supplemental Budget Information

November 8, 2019

Comments

Department of Commerce

November 12, 2019

Office of the Attorney General – Residential Utilities and Antitrust
Division

November 12, 2019

Xcel Large Industrials

November 12, 2019

Citizens Utility Board of Minnesota

November 18, 2019

Reply Comments

Xcel Energy

November 18, 2019

Table of Contents

- I. Statement of the Issues 1
- II. Introduction 1
- III. Party Positions 1
 - A. Department..... 2
 - B. OAG 2
 - C. XLI..... 3
 - D. CUB..... 3
 - E. Xcel Energy..... 3
- IV. Previous Xcel Energy Rate Cases (Electric Only) 4
- V. Summary of Xcel’s 2015-2018 Jurisdictional Allocation Reports 5
- VI. Xcel’s Application 7
 - A. Comparison of Authorized and Proposed Revenue Requirement 7
 - B. Proposed Cost of Capital, 2020 - 2022 9
 - C. Proposed Test and Plan Year Sales Forecasts & Proposed Sales True-up..... 10
 - 1. Proposed Sales Forecast..... 10
 - 2. Need for Revenue Decoupling or a Sales True-Up..... 15
 - D. Proposed Class Cost of Service Study 16
 - 1. Rules Requirement 16
 - 2. Rate Case Order Requirements 16
 - 3. Miscellaneous CCOSS Compliance Items..... 17
 - 4. PUC Staff Comment 18
 - E. Proposed Rate Design 18
 - 1. Class Revenue Apportionment..... 18
 - 2. Basic Monthly Service Charges..... 20
 - 3. Energy (per kWh) rates..... 20
 - 4. Time of Use Service 21
 - 5. Revenue Decoupling..... 21
- VII. Staff Analysis 23
 - A. Should this filing be accepted, and if so, as of what date? 23
 - 1. Statutes, Rules, and Orders 23
 - 2. Completeness and Date of Acceptance..... 23
 - B. If this filing is accepted, should the proposed rates be suspended, pursuant to Minn. Stat. §216B.16, subd. 2?..... 24
 - C. If this filing is accepted, should this matter be referred to the Office of Administrative Hearings (“OAH”) for a contested case?..... 25
 - D. Interventions 26

| | | |
|-------|--|----|
| E. | Identification of issues of special interest or requiring additional, supplemental testimony | 26 |
| F. | If this filing is accepted, should interim rates be set as requested by the Company? | 28 |
| 1. | Interim Rate Statute | 28 |
| 2. | Effective Date for Interim Rates | 29 |
| 3. | Financial Matters | 29 |
| 4. | Cost of Capital..... | 29 |
| 5. | Rate Design | 30 |
| 6. | Methods and Procedure for Refunding..... | 31 |
| VIII. | Public Hearings..... | 32 |
| IX. | Administrative and Compliance Issues | 32 |
| X. | Decision Alternatives | 33 |
| XI. | Concluding Comment & Recommendation | 38 |

I. Statement of the Issues

Should this filing be accepted? If so, should the proposed rates be suspended, this matter referred to the Office of Administrative Hearings, and interim rates set as requested by the Company?

II. Introduction

On November 1, 2019, Xcel Energy submitted its application for a multiyear rate plan (MYRP), with the Minnesota Public Utilities Commission. In the proposed three-year MYRP, the Company is seeking general rate increases of: \$201.4 million, or 6.5%, in 2020 (the test-year), an incremental increase of \$146.4 million, or 4.8%, in 2021, and another incremental increase of \$118.3 million, or 3.9%, in 2022. Each of the three plan years are forecasted, calendar years. In the event the Commission and parties wish to explore a longer MYRP, the Company has included forecast and cost of service information for 2023 and 2024.

The basic issues at this stage of a rate case are whether to accept the filing as substantially complete, suspend the proposed final rates, refer this matter to the Office of Administrative Hearings (OAH) for a contested case proceeding, and set interim rates subject to refund.

If the Commission decides to suspend Xcel's proposed final rates, the Company requests an interim rate increase of \$121.95 million,¹ or 4.06%, for 2020 and a second, incremental interim rate increase of \$143.98 million, or 4.88%, beginning January 1, 2021.

Also on November 1, 2019, Xcel filed an alternative proposal² (Stay-Out Proposal) which, if approved, will extend the true-up mechanisms approved as part of the Settlement in Xcel's previous rate case.³ The Stay-Out Proposal also includes a request to delay any increase to the Nuclear Decommissioning Trust (NDT) accrual⁴ until January 1, 2021 or, alternatively, approval to defer any 2020 NDT accrual increase so that Xcel can recover that incremental expense in a future rate case. The Stay-Out Proposal, the NDT accrual docket and this proceeding are scheduled to be heard at the Commission's December 12 meeting.

III. Party Positions

On November 6, 2019, the Minnesota Public Utilities Commission (Commission) issued its notice requesting comments on whether Xcel's filing complies with the filing requirements in Minn. Stat. § 216B.16, Minn. Rules, Parts 7825.3100 to 7825.4400 and Commission Orders. The Commission also asked for comments on whether this rate application should be referred to the Office of Administrative Hearings (OAH) for a contested case proceeding.

¹ Xcel's financial schedules show a \$121.95 million interim rate increase; however, Xcel's Notice and Petition for Interim Rates includes mentions of a \$113.5 million interim rate increase.

² Docket E-002/M-19-688.

³ Docket E-002/GR-15-826.

⁴ Docket E-002/M-17-828.

A. Department

On November 12, 2019, the Minnesota Department of Commerce, Division of Energy Resources (the Department or DOC) filed comments recommending the following:

- Accept Xcel’s rate case filing as substantially complete as of November 8, 2019.
- Refer this matter to the Office of Administrative Hearings for a contested case and request that the following issues be addressed and developed in that proceeding:
 1. Is the test year revenue increase sought by the Company reasonable, or will it result in unreasonable and excessive earnings?
 2. Is the proposed rate design proposed reasonable?
 3. Are the Company’s proposed capital structure, cost of capital, and return on equity reasonable?
 4. Did the Company, as required by the Commission’s Order dated November 5, 2019 in Docket No. E-999/CI-03-802, demonstrate that its proposed base rates appropriately exclude Fuel Clause Adjustment-related costs?

The Department’s November 12, 2019 comments are silent with respect to the Department’s position on Xcel’s Stay-Out Proposal in Docket No. E-002/M-19-688.

B. OAG

On November 12, 2019, the Office of the Attorney General – Residential Utilities and Antitrust Division (OAG) filed comments and noted that Xcel’s previous rate case resulted in a “black box” settlement that did “not define a rate base, provide an income statement, or determine a cost of service.”⁵ Therefore, to determine whether rate base or expense items are the “same in nature and kind”, as authorized in Xcel’s “most recent rate proceeding”, the Commission must compare specific cost items to approvals of those items in the prior Xcel general rate proceeding.⁶ Under the Interim Rate Statute, the Commission cannot allow recovery of those items unless and until it can make such a determination.

The OAG also recommended that, due to other proceedings’ dependence on an authorized rate of return, the Commission should impose some parameters for any potential settlements in this rate case to ensure that future regulatory proceedings operate as intended and that all parties to this proceeding are treated fairly. Those parameters include the following:

1. The Commission should require stipulated settlements to fully resolve any issue that they purport to settle. That approach would address concerns related to trying to apply the Interim Rate Statute to a rate case that reached a black box revenue

⁵ In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota, Docket No. E-002/GR-15-826, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND RECOMMENDATIONS at 131 (Mar. 1, 2017) (adopted by 2015 Order at 68).

⁶ Docket E-002/GR-13-868

requirement and the Commission would be able to apply the Interim Rate Statute to a complete set of rate base and expense decisions.

2. Establish a set ROE. Not having such an ROE deprives the public and regulators of a statutorily-defined default return and, while there is a provision for approving a different return, not resolving the ROE issue in a rate case effectively guarantees that that provision will need to be utilized. Thus, parties with an interest in Xcel's ROE need to prepare an ROE analysis in the rate case and, absent an approved ROE, in subsequent proceedings that require an approved ROE.
3. The Commission should make it clear that it will not entertain stipulated settlements that purport to settle the issues of parties that have not joined in the agreement.

C. XLI

On November 12, 2019, Xcel Large Industrials (XLI) filed comments recommending that, due to the numerous material issues of fact allegedly supporting the Application that can only be addressed in a contested case setting, this matter be referred to the Office of Administrative Hearings for a contested case. XLI also recommended that, due to the anticipated length of this proceeding, the Commission request that parties develop the record on the appropriate interest rate that should applied to any interim-rate refunds.

XLI noted that, concurrent with this matter, the Company filed its Stay-Out Proposal which, if approved, would result in Xcel withdrawing this rate case. XLI pointed out that, for Xcel to withdraw the rate case, it must demonstrate the withdrawal comports with Minn. R. 7829.0430 (Withdrawal of Filings). Minn. R. 7829.0430 does not impose stringent standards if an application for withdrawal is uncontested; however, if any person opposes a withdrawal application, the filing party must demonstrate that the proposed withdrawal: "A. does not contravene the public interest; B. does not prejudice any party; and C. does not concern a filing that raises issues requiring Commission action." Therefore, if any party timely opposes the withdrawal, XLI recommended that the Commission open a notice of comment period to allow stakeholders to fully analyze the implications of Xcel's request.

D. CUB

On November 19, 2019, Citizens Utility Board of Minnesota (CUB), stated in its comments that if the Commission refers this matter to the OAH for a contested case, that it provide instruction as to the rules governing intervention, the ability to certify questions to the Commission, and the Commission's preference for inclusivity rather than limiting parties' intervention.

E. Xcel Energy

On November 19, 2019, Xcel filed reply comments agreeing that this matter should be accepted and referred to the OAH. However, Xcel disagreed with the Department's assessment that its application be found substantially complete as of November 8, 2019. Xcel agreed that the Department correctly stated that two items that were provided by paper copy on November 1, 2019 were not also filed in eDockets that same day: Schedules to the Direct Testimony of Company witness Mr. Schrubbe, filed to eDockets on November 7, 2018, and certain

“Supplemental Budget Information,” filed to eDockets on November 8, 2019. The Company believes that its failure to upload a handful of schedules to eDockets was inadvertent, did not hinder parties’ review of the filed case, and should not be used as a basis to render the Application incomplete as of November 1. As for the “Supplemental Budget Information,” the Company noted in its November 8, 2019 cover letter that it was efilings this information at the Department’s request and, that consistent with Company practice and Commission findings of completeness in the Company’s past several rate cases, Xcel did not electronically file the Supplemental Budget Information. Given that this issue has not previously been viewed as a completeness issue, Xcel thinks that its application should be found substantially complete as of November 1, 2019.

Xcel stated that the OAG’s comments on interim rate setting should be dismissed. Since Xcel has identified and described items previously excluded by the Commission, the OAG’s concerns that, as a result of the settlement in the previous rate case, items of the “same nature and kind” cannot be identified is incorrect. Xcel has identified and described items previously excluded by the Commission and the OAG failed to identify any item it believes the Company failed to capture in these adjustments. Finally, the OAG’s comments, if accepted, would undermine the legislative encouragement of settlements expressed in Minnesota Statutes. Consistent with Minnesota law and public policy, the Commission properly approved that settlement. While the OAG did not join that settlement, it did not challenge its approval either. Four years later, the OAG should not be allowed to use the parties’ work in achieving that settlement and the Commission Order approving it as part of an attack on the Commission’s interim rate setting process.

IV. Previous Xcel Energy Rate Cases (Electric Only)

Xcel has filed six electric rate cases since 2005.

a. 2005 Xcel electric rate case

On November 2, 2005, Xcel filed a rate case⁷ seeking a \$168,047,000, or 8.05%, rate increase. The Commission’s September 1, 2006 Order authorized an increase of \$131,455,000, or 6.29% for the test year ending December 31, 2006 and, effective January 1, 2007, the authorized increase was adjusted (reduced) to \$114,941,000 to reflect the addition of Flint Hills as a full-requirements retail customer.

b. 2008 Xcel electric rate case

On November 3, 2008, Xcel filed a rate case⁸ seeking a \$156,065,000, or 6.05%, rate increase. The Commission’s October 23, 2009 Order authorized an increase of \$91,375,000, or 3.54%.

⁷ Docket E-002/GR-05-1428.

⁸ Docket E-002/GR-08-1065.

c. 2010 Xcel electric rate case

On November 3, 2010, Xcel filed a rate case⁹ seeking, effective January 2, 2011, a \$150,100,000, or 5.62%, rate increase and an additional \$48,300,000 step increase, or 1.81%, effective January 1, 2012 (step-year) resulting in a total request for \$198,500,000, or 7.43%. The Commission's May 14, 2012 Order authorized an increase of \$58,036,000 for the test-year ending December 31, 2011 and an additional \$14,680,000 for the 2012 step-year increase for a total increase of \$72,716,000, or 2.72%.

d. 2012 Xcel electric rate case

On November 2, 2012, Xcel filed a rate case¹⁰ seeking a \$285,476,000, or 10.70%, rate increase. The Commission's September 3, 2013 Order authorized an increase of \$102,797,000, or 3.82%.

e. 2013 Xcel electric rate case

On November 4, 2013, Xcel filed a multi-year rate plan (2013 MYRP)¹¹ seeking a \$192,708,000, or 6.9%, rate increase for 2014 and an additional \$98,535,000, or 3.5%, for 2015 for a total request of \$291,243,000, or 10.4%. The Commission's September 3, 2013 Order authorized an increase of \$55,511,000 for the 2014 and \$93,908,000 for 2015, for a total of \$149,419,000, or 5.28%.

f. 2015 Xcel electric rate case

On November 2, 2015, Xcel filed a multi-year rate plan (2015 MYRP).¹² Xcel's proposal was for either a three- or five-year MYRP. The three-year plan sought a \$194,600,000, or 6.4%, rate increase for 2016, an additional \$52,100,000, or 1.7%, for 2017 and an additional \$50,400,000, or 1.7%, for 2018 for a total request of \$297,100,000, or 9.8%. The five-year alternative plan sought a \$163,700,000, or 5.4%, rate increase for 2016, and an additional \$54,600,000, or 1.8%, for each of the next four years, for a total request of \$382,100,000, or 12.6%.

The Commission's June 12, 2017 Order authorized an increase of \$134,966,000 for the 2016 test-year, an additional \$59,858,000 for 2017, and an additional \$55,014,000, for 2019 for a total of \$249,838,000, or 8.24%.

V. Summary of Xcel's 2015-2018 Jurisdictional Allocation Reports

The following is a brief historical summary of Xcel's authorized and reported (weather normalized and actual) jurisdictional overall rates of return and rates of return on common equity.

⁹ Docket E-002/GR-10-971.

¹⁰ Docket E-002/GR-12-961.

¹¹ Docket E-002/GR-13-868.

¹² Docket E-002/GR-15-826.



XCEL ENERGY: 2015-2018 SUMMARY OF JURISDICTIONAL ALLOCATION REPORTS

| Year | Most Recent Rate Case Docket | Regular Full- | | | |
|----------|---------------------------------|---------------|-------------------|-----------------------|----------------------|
| | | Customers | time Employees | Assessable Revenue | Average Rate Base |
| 2015 | E-002/GR-13-868 | 1,259,622 | 3,623 | \$2,962,058,000 | \$7,744,590,000 |
| (1) 2016 | E-002/GR-15-826 | 1,269,419 | 3,563 | \$3,119,569,000 | \$8,250,799,000 |
| 2017 | E-002/GR-15-826 | 1,279,517 | 3,365 | \$3,165,504,000 | \$8,426,384,000 |
| 2018 | E-002/GR-15-826 | 1,290,014 | 3,271 | \$3,328,440,000 | \$8,568,158,000 |

| Year | Most Recent Rate Case Docket | RETURN ON REVENUE | | | |
|----------|---------------------------------|-------------------|-----------------------|------------|-------------------------------------|
| | | PUC Authorized | Weather Normalized | Actual ROR | Variance: Actual - Authorized |
| | | ROR | ROR | | |
| 2015 | E-002/GR-13-868 | 7.370% | 6.960% | 6.860% | -0.510% |
| (1) 2016 | E-002/GR-15-826 | 7.070% | 7.090% | 7.080% | 0.010% |
| 2017 | E-002/GR-15-826 | 7.090% | 7.230% | 7.110% | 0.020% |
| 2018 | E-002/GR-15-826 | 7.090% | 6.790% | 6.870% | -0.220% |

| Year | Most Recent Rate Case Docket | RETURN ON EQUITY | | | |
|----------|---------------------------------|-------------------|-----------------------|------------|-------------------------------------|
| | | PUC Authorized | Weather Normalized | Actual ROE | Variance: Actual - Authorized |
| | | ROE | ROE | | |
| 2015 | E-002/GR-13-868 | 9.720% | 8.930% | 8.738% | -0.982% |
| (1) 2016 | E-002/GR-15-826 | 9.060% | 9.350% | 9.333% | 0.273% |
| 2017 | E-002/GR-15-826 | 9.060% | 9.660% | 9.440% | 0.380% |
| 2018 | E-002/GR-15-826 | 9.060% | 8.880% | 9.029% | -0.031% |

(1) The Commission's Order (final determination) in Xcel's 2015 rate case was issued on June 12, 2017, in Docket No. E-002/GR-15-826, and authorized Xcel, for its multi-year rate plan, to represent its authorized returns over the course of the four-year plan as follows: 2016, ROR – 7.07%, ROE - 9.20%; 2017, ROR – 7.09%, ROE - 9.20%; 2018, ROR – 7.09%, ROE - 9.20%; and 2019, ROR – 7.08%, ROE - 9.20%. (Interim rates were put into effect January 1, 2016.) However, Xcel's revenue requirement, in the 2015 rate case, is based on an ROE of 9.06%

Utility reported data pursuant to Commission rules (Minn. R. 7825.4700 - 7825.5400) May 1st of each year in Dockets 15-04, 16-04, 17-04, and 18-04. This information is reported on a jurisdictional basis for each rate regulated energy utility. These reports are not audited and do not necessarily correspond to information reported to EIA or to any rate case.

VI. Xcel's Application

Xcel's main proposal for its multiyear rate plan (MYRP) is for a three year plan; however, the Company has provided information that would add a possible fourth and fifth year to the plan. Table 1 summarizes that annual increases the Xcel seeks.

Table 1 - Xcel Energy's Requested Annual Increases (\$000's)

| | Proposed Increase (\$) | Proposed Increase (%) |
|------------------------------|------------------------|-----------------------|
| 2020 Test Year | \$201,427 | 6.45% |
| 2021 Step Year (Plan Year 2) | \$146,368 | 4.83% |
| 2022 Step Year (Plan Year 3) | \$118,309 | 3.90% |
| Three Year Total | \$466,104 | 15.19% |
| 2023 Step Year (Plan Year 4) | \$125,402 | 4.25% |
| Four Year Total | \$591,506 | 19.44% |
| 2024 Step Year (Plan Year 5) | \$103,327 | 3.43% |
| Five Year Total | \$694,833 | 22.87% |

A. Comparison of Authorized and Proposed Revenue Requirement

Table 2 provides a comparison between the 2019 revenue requirement approved in Xcel's 2015 MYRP and the proposed annual revenue requirements in this docket.

Table 2 - Approved 2019 Revenue Requirement Comparison to Current Proposal (\$000's)

| Financial Summary (\$000's) | Authorized 2019 Rates | Proposed 2020 Rates | Proposed 2021 Rates (2020 Test Year Plus 2021 Step Year) | Proposed 2022 Rates (2020 Test Year Plus 2021-2022 Step Years) | Proposed 2023 Rates (2020 Test Year Plus 2021-2023 Step Years) | Proposed 2024 Rates (2020 Test Year Plus 2021-2024 Step Years) |
|-----------------------------|-----------------------|---------------------|--|--|--|--|
| Average Rate Base | \$7,202,333 | \$8,986,901 | \$9,309,544 | \$9,805,740 | \$10,368,243 | \$10,976,895 |
| Required Rate of Return | 7.08% | 7.45% | 7.45% | 7.47% | 7.58% | 7.62% |
| Return on Equity | 9.20% ¹³ | 10.20% | 10.20% | 10.20% | 10.20% | 10.20% |
| Required Operating Income | \$509,925 | \$669,524 | \$693,561 | \$732,489 | \$785,913 | \$836,439 |
| Operating Income | \$485,031 | \$497,145 | \$414,729 | \$366,852 | \$320,146 | \$277,486 |
| AFUDC | \$24,894 | \$28,846 | \$31,000 | \$33,500 | \$44,271 | \$63,829 |
| Total Available for Return | \$509,925 | \$525,991 | \$445,729 | \$400,352 | \$364,417 | \$341,315 |
| Income Deficiency | \$0 | \$143,533 | \$247,832 | \$332,137 | \$421,496 | \$495,124 |
| Conversion Factor | 1.70561 | 1.40335 | 1.40335 | 1.40335 | 1.40335 | 1.40335 |
| Revenue Deficiency | \$0 | \$201,427 | \$347,795 | \$466,104 | \$591,506 | \$694,833 |

¹³ 9.20% ROE was approved for "illustrative purposes".

Staff notes that 2020 rate base is \$1.785 billion¹⁴ higher than rate base in 2019; whereas, over the subsequent four years, the total rate base increase is \$1.990 billion.¹⁵ Since the one year 2020 rate base increase is very close to the total rate base increase for the next four years combined, the Commission may want to request full record development that discusses the investments that drive such a large increase.

Table 3 summarizes revenue deficiency drivers for the first three years.¹⁶

Table 3 - Revenue Requirement Drivers, 2020-2022, in \$millions

| | 2020 Test Year to Authorized 2019 | 2021 Step Year to 2020 Test Year | 2022 Step Year to 2021 Step Year | Total |
|-----------------------------------|-----------------------------------|----------------------------------|----------------------------------|---------|
| Increase in Rate Base | \$225.9 | \$56.3 | \$75.1 | \$357.3 |
| Increase in Rate of Return | \$66.8 | \$2.4 | \$3.7 | \$72.9 |
| (Increase)/Decrease in Net Income | (\$91.3) | \$87.7 | \$39.5 | \$35.9 |
| Total | \$201.4 | \$146.4 | \$118.3 | \$466.1 |

Table 4 provides an expense comparison, by major groups, of amounts approved in Xcel's last rate case and amounts proposed in this rate case.

Table 4 - 2019 -2022 Expense Groups Comparison (\$000)

| Financial Summary (\$000's) | 2019 Approved | 2020 Test Year | 2021 Step Year | 2022 Step Year | Changes from 2019 to 2022 (\$) | Changes from 2019 to 2022 (%) |
|--------------------------------|---------------|----------------|----------------|----------------|--------------------------------|-------------------------------|
| Power Production | \$691,533 | \$604,726 | \$628,551 | \$637,764 | (\$53,769) | -7.8% |
| Transmission | \$243,697 | \$255,621 | \$260,273 | \$269,687 | \$25,990 | 10.7% |
| Distribution | \$111,186 | \$114,249 | \$132,140 | \$127,086 | \$15,900 | 14.3% |
| Customer Accounting | \$50,555 | \$48,973 | \$48,931 | \$43,907 | (\$6,648) | -13.2% |
| Customer Service & Information | \$95,067 | \$105,520 | \$105,532 | \$105,572 | \$10,505 | 11.1% |
| Sales, Econ Dev, & Other | \$69 | (\$6) | (\$5) | (\$5) | (\$74) | -107.2% |
| Administrative and General | \$224,433 | \$246,966 | \$252,269 | \$260,301 | \$35,868 | 16.0% |
| Depreciation | \$568,522 | \$683,392 | \$719,524 | \$760,859 | \$192,337 | 33.8% |
| Amortization | \$21,871 | \$43,948 | \$43,475 | \$44,757 | \$22,886 | 104.6% |
| Property Taxes | \$198,796 | \$178,357 | \$183,524 | \$197,091 | (\$1,705) | -0.9% |
| Deferred Income Tax & ITC | \$107,334 | (\$71,438) | (\$172,672) | (\$190,897) | (\$298,231) | -277.9% |
| Federal & State Income Tax | (\$67,264) | (\$6,184) | \$59,576 | \$56,478 | \$123,742 | -184.0% |
| Payroll & Other | \$29,896 | \$27,259 | \$27,352 | \$27,435 | (\$2,461) | -8.2% |
| Total | \$2,275,695 | \$2,231,383 | \$2,288,470 | \$2,340,035 | \$64,340 | 2.8% |

¹⁴ \$8.987 billion – \$7.202 = \$1.785 billion.

¹⁵ \$10.977 billion – \$8.987 = \$1.990 billion.

¹⁶ Halama Direct, Exhibit BCH-1, Schedule 6 provides a more granular breakdown of these drivers.

Notable changes include a \$26.0 million increase in transmission costs, a \$15.9 million increase in distribution costs, a \$6.6 million decrease in customer accounting, a \$10.5 million increase in customer service and information and a \$35.9 million increase in administrative and general.

B. Proposed Cost of Capital, 2020 - 2022

The filing requirements regarding rate of return and cost of capital are found in Minnesota Rules, Part 7825.4200. These rules require the Company to provide:

A. A rate of return cost of capital summary schedule showing the calculation of the weighted cost of capital using the proposed capital structure and the average capital structures for the most recent fiscal year and the projected fiscal year. This information shall be provided for the unconsolidated parent and subsidiary corporations, or for the consolidated parent corporation.

B. Supporting schedules showing the calculation of the embedded cost of long-term debt, if any, and the embedded cost of preferred stock, if any, at the end of the most recent fiscal year and the projected fiscal year.

C. Schedule showing average short-term securities for the proposed test year, most recent fiscal year, and the projected fiscal year.

The Company provided this information in Volume 3, Section II, Tab 5, Rate of Return Cost of Capital Schedules.

For the 2020 test year, Xcel is proposing a cost of equity of 10.20% and an overall cost of capital of 7.42% based on the following capital structure and cost of capital:

| Table 5: 2020 Proposed Cost of Capital | | | |
|---|-------------------------|------------------|----------------------|
| Component | Percent of Total | Cost Rate | Weighted Cost |
| Long-Term Debt | 46.63% | 4.35% | 2.03% |
| Short-Term Debt | 0.87% | 2.97% | 0.03% |
| Common Equity | 52.50% | 10.20% | 5.36% |
| Total (ROR) | 100.00% | | 7.42% |

For the 2021 step year, Xcel is proposing a cost of equity of 10.20% and an overall cost of capital of 7.42% based on the following capital structure and cost of capital:

| Table 6: 2021 Proposed Cost of Capital | | | |
|---|-------------------------|------------------|----------------------|
| Component | Percent of Total | Cost Rate | Weighted Cost |
| Long-Term Debt | 46.28% | 4.37% | 2.02% |
| Short-Term Debt | 1.22% | 2.99% | 0.04% |
| Common Equity | 52.50% | 10.20% | 5.36% |



| | | | |
|-------------|---------|--|-------|
| Total (ROR) | 100.00% | | 7.42% |
|-------------|---------|--|-------|

For the 2022 step year, Xcel is proposing a cost of equity of 10.20% and an overall cost of capital of 7.42% based on the following capital structure and cost of capital:

| Component | Percent of Total | Cost Rate | Weighted Cost |
|-----------------|------------------|-----------|---------------|
| Long-Term Debt | 46.42% | 4.41% | 2.05% |
| Short-Term Debt | 1.08% | 3.04% | 0.03% |
| Common Equity | 52.50% | 10.20% | 5.36% |
| Total (ROR) | 100.00% | | 7.44% |

C. Proposed Test and Plan Year Sales Forecasts & Proposed Sales True-up

1. Proposed Sales Forecast

Staff believes Xcel has met the following two requirements established by the Commission:

- 1) The Commission's September 3, 2013 Order in Xcel's previous rate case, Docket No. E002/GR-12-961, required Xcel to pre-file the test year sales forecast at least 30 days prior to filing a general rate case.

In anticipation of filing this rate case, Xcel submitted all of its sales data and related inputs, including customer, economic, and weather data, on October 1, 2019 – 30 days ahead of filing its actual rate case.

- 2) Additionally, the Commission's June 17, 2013 Order in Docket No. E,G-999/M-12-587 (Commission Investigation Regarding Criteria and Standards for Multiyear Rate Plans) requires Xcel to provide testimony supporting the proposed sales forecast and forecast methodology and submit an analysis of the historical accuracy of the various forecasts.

Ms. Marks' testimony addresses these issues exhaustively in Exhibit ___ (JEM-1), Schedule 2. In the following, Staff offers an explanation of the information contained in Xcel's rate case filing, including the testimony filed by the Company.

Information provided by Xcel includes:

- 1) An explanation of the source and work papers supporting the derivation or calculation of each of these data series, as well as a description and justification for each binary variable used;

- 2) All regression models and results, and a description of methods used and the results for the forecasts that are not based on a regression methodology;

- 3) A comparison and reconciliation of the input data, the variables used in the forecast models, and the test year forecast results to the data, models and forecast used in the Docket No. E002/GR-15-826, Docket No. E002/AA-19-293, and Docket No. E002/RP-19-368;
- 4) An explanation of any exogenous adjustment 1 made to the forecast;
- 5) An explanation of the unbilled sales estimation process for the test year and historical time period and all data necessary to recreate the conversion, including a description of the weather response coefficients and all data necessary to recreate the coefficients, and an explanation of the calculation of calendar month weather response coefficients;
- 6) All data necessary to weather normalize historical calendar month sales; and
- 7) A reconciliation between different sources for historical billing-month sales.

Xcel notes that its electric sales have been declining since 2008 even in the face of increasing numbers of customers taking service. Xcel reasons that this is due to increased energy efficiency for residential customers resulting in less consumption per household and declining commercial and industrial sales. Xcel foresees continuing drop in sales consistent with the historic trends. Xcel noted that the “primary factors contributing to the declining sales since 2009 are use per customer declines in the Residential and Small Commercial and Industrial sectors due to energy efficiency and the loss of load for several Large Commercial and Industrial customers in 2012-2013 and 2017-2018.” Xcel indicated that it used the same statistical methods used in past electric rate cases. However, in light of the declining sales, Xcel noted that it made certain exogenous adjustments to sales forecasts – “the sales model historical data and output for the Residential without Space Heat, Residential with Space Heat, Small Commercial and Industrial and Large Commercial and Industrial classes were adjusted to account for the impacts of Demand-Side Management savings.”

Xcel presented forecasts of sales and customers for the January 1, 2020 to December 31, 2024 time period. Details of the methods used to develop electric sales and customer forecast are elaborated in Ms. Marks’ testimony.

Xcel projects test-year 2020 total sales to decrease from 2019 levels by 1.7 percent to 28,845,455 MWh; plan year 2021 total sales to decrease from 2020 levels by 1.6 percent to 28,395,225 MWh; and plan year 2022 total sales to decrease from 2021 levels by 0.3 percent to 28,310,262 MWh.

Test-year electric sales are critical in the determination of test-year revenues. They are also critical in determining revenues under proposed rates.

The following example will illustrate how the test-year revenue deficiency is determined in this rate case:

| | |
|------------------------------------|---|
| 1) Test-year (2020) retail revenue | = \$3,121,140,000 (sales forecast (28,845,455 Mwh) times current rates) ¹⁷ |
| 2) Expenses | = \$3,140,166,000 (not affected by sales estimate) |
| 3) Current Return | = \$525,992,000 (Line 1 minus Line 2) |
| 4) Required Return | = \$669,524,000 (rate base (\$8,986,901) times (7.45%) proposed rate of return) ¹⁸ |
| 5) Income Deficiency | = \$143,533,000 (Line 4 minus Line 3) |
| 6) Gross Revenue Deficiency | = \$201,426,700 (Line 5 times gross-up factor (1.403351)) |

(Total revenue requirement equals the sum of revenue deficiency and current retail revenue)

Xcel notes that “sales forecasts often become highly disputed issues in rate cases, given their impact on final rates.”

The importance of predicting accurately the test-year 2020 sales (28,845,455 Mwh in this rate case) lies in its impact on revenue deficiency. Over-estimation of sales will inflate Line 1) and Line 3) above, and depress the values in Line 5) and 6). In other words, over-estimation of sales will reduce the gross revenue deficiency and will point to lower rates and result, most likely, in under-earnings for the Company. On the other hand, under-estimation of sales, will lower the values in Line 1) and Line 3). It will increase the value in Line 5) by widening the gap between Lines 3) and 4). The gross revenue deficiency in Line 6) will be higher than what is given here and the resulting rates will be higher than necessary and, most likely, result in over-earnings for the Company. Xcel notes that modestly overstated sales would benefits customers, because such a forecast assumes the Company will sell more electricity than it actually does and rates will be set lower on a per kWh basis than would have been set with a lower forecast. Xcel adds, however, this would also mean that rates will be set lower than the amount necessary for the Company to recover its cost of service.

If the sales figure is over-estimated, it would reduce the gross revenue deficiency and would point to lower proposed rates and result, most likely, in under-earnings for the Company. On the other hand, if the sales figures are under-estimated, it would lead to a much larger revenue deficiency and would point to higher proposed rates and result, most likely, in over-earnings for the Company.

¹⁷ See Steven Huso Direct Testimony, Exhibit____(SVH-1), Schedule 3, p. 50 of 131.

¹⁸ See Halama Direct Testimony, p. 8.

The weather influences the amount of energy an electric utility sells: all else being equal, hotter temperatures tend to increase energy sales while cooler temperatures tend to reduce them.

For this reason, test-year sales are weather normalized – the impact of extreme weather on sales is taken and weather-normalized sales show what sales would be under normal weather conditions. Xcel used the average of 20-year actual weather, from 1999 to 2018, to represent normal weather. More specifically, Xcel used 20-year average of heating-degree days and temperature humidity index (THI)¹⁹ to weather-normalize electric sales.

The following tables present the customer and sales data provided by Xcel:

Test Year (2020) Customers and Weather-Normalized Sales Forecast by Customer Class

| | Customers | Sales(MWh) |
|----------------------------------|-----------|------------|
| Residential without Space Heat | 1,132,323 | 8,058,733 |
| Residential with Space Heat | 36,911 | 398,372 |
| Small Commercial & Industrial | 133,983 | 12,704,035 |
| Large Commercial & Industrial | 505 | 7,516,386 |
| Public Street & Highway Lighting | 5,518 | 92,889 |
| Other Sales to Public Authority | 2,037 | 67,933 |
| Interdepartmental | 5 | 7,108 |
| Total Retail | 1,311,282 | 28,845,456 |

Source: Marks Direct Testimony, Schedule 6.

Plan Year (2021) Customers and Weather-Normalized Sales Forecast by Customer Class

| | Customers | Sales(MWh) |
|----------------------------------|-----------|------------|
| Residential without Space Heat | 1,141,189 | 7,900,550 |
| Residential with Space Heat | 37,674 | 395,377 |
| Small Commercial & Industrial | 134,618 | 12,534,744 |
| Large Commercial & Industrial | 504 | 7,397,876 |
| Public Street & Highway Lighting | 5,658 | 92,141 |
| Other Sales to Public Authority | 2,039 | 67,428 |
| Interdepartmental | 5 | 7,108 |
| Total Retail | 1,321,687 | 28,395,224 |

Source: Marks Direct Testimony, Schedule 6.

Plan Year (2022) Customers and Weather-Normalized Sales Forecast by Customer Class

| | Customers | Sales(MWh) |
|--------------------------------|-----------|------------|
| Residential without Space Heat | 1,149,314 | 7,900,831 |
| Residential with Space Heat | 38,420 | 399,042 |
| Small Commercial & Industrial | 135,241 | 12,420,808 |

¹⁹ THI is a composite measure capturing the degree of weather-related discomfort by combining temperature and dew point.



| | | |
|----------------------------------|-----------|------------|
| Large Commercial & Industrial | 503 | 7,422,084 |
| Public Street & Highway Lighting | 5,765 | 92,975 |
| Other Sales to Public Authority | 2,040 | 67,413 |
| Interdepartmental | 5 | 7,108 |
| Total Retail | 1,331,288 | 28,310,261 |

Source: Marks Direct Testimony, Schedule 6.

Year (2023) Customers and Weather-Normalized Sales Forecast by Customer Class

| | Customers | Sales(MWh) |
|----------------------------------|-----------|------------|
| Residential without Space Heat | 1,156,452 | 7,891,024 |
| Residential with Space Heat | 39,169 | 401,915 |
| Small Commercial & Industrial | 135,855 | 12,188,682 |
| Large Commercial & Industrial | 502 | 7,443,222 |
| Public Street & Highway Lighting | 5,865 | 93,739 |
| Other Sales to Public Authority | 2,040 | 67,416 |
| Interdepartmental | 5 | 7,108 |
| Total Retail | 1,339,888 | 28,093,106 |

Source: Marks Direct Testimony, Schedule 6.

Year (2024) Customers and Weather-Normalized Sales Forecast by Customer Class

| | Customers | Sales(MWh) |
|----------------------------------|-----------|------------|
| Residential without Space Heat | 1,163,593 | 8,025,158 |
| Residential with Space Heat | 39,907 | 412,806 |
| Small Commercial & Industrial | 136,457 | 11,993,542 |
| Large Commercial & Industrial | 502 | 7,468,528 |
| Public Street & Highway Lighting | 5,959 | 94,454 |
| Other Sales to Public Authority | 2,041 | 67,407 |
| Interdepartmental | 5 | 7,108 |
| Total Retail | 1,348,464 | 28,069,003 |

Source: Marks Direct Testimony, Schedule 6.

Past experience in Xcel's rate cases, in very general terms, has been that the Department's alternative sales estimate has been higher than Xcel's estimate. Xcel notes that its forecasting accuracy is improving and that its forecasts have been more accurate than those of the Department of Commerce. Even so, Xcel claims that its actual sales continue to decline and fall below its forecasted sales.

The decline in annual sales can be seen in the following table:

| Year | Sales (Mwh) | Year-end Customers |
|------|-------------|--------------------|
| 2020 | 28,845,455 | 1,316,632 |
| 2021 | 28,395,225 | 1,326,712 |
| 2022 | 28,310,262 | 1,335,591 |
| 2023 | 28,093,106 | 1,344,254 |

| Year | Sales (Mwh) | Year-end Customers |
|------|-------------|--------------------|
| 2024 | 28,069,004 | 1,352,894 |

The forecasted 2020 test-year figure of 28,845,455 MWh is subject to true-up as proposed by Xcel.

2. Need for Revenue Decoupling or a Sales True-Up

Xcel notes that the test year 2020 sales forecast of 28,845,455 MWh is a good prediction; nevertheless, the actual sales for 2020 may exceed or fall short of it. Xcel cautioned that there are factors unknown today that could result in higher-than-forecasted sales or lower-than-forecasted sales. A true-up mechanism, Xcel notes, protects against these uncertainties. Xcel proposed a true-up mechanism.

Xcel notes that in its previous rate case (docket 15-826), it agreed to work with the Department to utilize actual (trued-up) weather normalized sales data for the setting of rates for the 2016 test year. Xcel observes that accuracy of sales forecast is more important than sophistication of models and methodologies.²⁰ Xcel argues that use of actual sales would certainly be more accurate and proposes a test year true-up mechanism to ensure a more accurate sales forecast. Xcel claims that with the true-up sales, some of the differences in forecasting methodologies between the Department and the Company become more academic.

Xcel is proposing to set test-year 2020 rates based on actual weather-normalized sales – this is the sales true-up. Xcel is proposing to weather-normalize the actual 2020 test year sales information which would be available in February 2021 in determining the final 2020 revenue requirement and set 2020 final rates.²¹

For plan years 2021 and 2022, Xcel is seeking continuation of this revenue decoupling mechanism for all of the non-demand classes (RDM), and a revenue decoupling mechanism for demand customers (RDM-D) in lieu of the current sales true-up for those classes.

So, Xcel is proposing to decouple all its customer classes during the plan years. If the decoupling of all customer classes is approved by the Commission, a separate sales true-up for demand customers will become necessary.

In addition to replacing the sales true-up with revenue decoupling, Xcel is proposing to increase the surcharge cap (from the current 3-percent limit) and using actual instead of weather-normalized results for the demand billed class.

In effect, as proposed by Xcel:

1. test-year 2020 sales will be trued up in 2021 and will be weather-normalized;
2. RDM and RDM-D will not be applied for test-year 2020;

²⁰ Marks Direct, pp. 16-17.

²¹ Liberkowski Direct Testimony, p. 8.

3. RDM and RDM-D will be effective January 1, 2021;
4. reset base rates for plan years 2021 and 2022 plan years would be based on sales forecast; and
5. RDM and RDM-D adjustments would then follow in the subsequent year(s).

Xcel has justified resetting base rates of plan years 2021 and 2022 by noting that Xcel's sales forecast for 2021 and 2022 show a decline in sales and that failure to recognize the declining trend would not allow Xcel to recover the appropriate level of revenues during the 2021 and 2022 plan years. However, if the base year sales remained at the 2020 actual sales level, Xcel would recover authorized revenue through the RDM and RDM-D adjustments, but these adjustments would be larger than if the base rates had been set to incorporate the forecasted sales decline.

D. Proposed Class Cost of Service Study

1. Rules Requirement

Minnesota Rules, Part 7825.4300 (c) requires a request for a change in rates to include:

“A cost-of-service study by customer class of service, by geographic area, or other categorization as deemed appropriate for the change in rates requested, showing revenues, costs, and profitability for each class of service, geographic area, or other appropriate category, identifying the procedures and underlying rationale for cost and revenue allocations. Such study is appropriate whenever the utility proposes a change in rates which results in a material change in its rate structure.”

Xcel provided its Class Cost of Study in Volume 3, Section 6(C), for the Test Years 2020, 2021, and 2022. Because Xcel is proposing a multi-year rate plan, each year of the rate plan must be modeled.

2. Rate Case Order Requirements

The June 17, 2013 Order in Docket No. E,G-999/M-12-587, Order Point 17(e) of the Commission's Order required that:

An application for a multiyear rate plan must include or be accompanied by all the information required for a general rate case, including but not limited to – Other financial schedules and cost projections filed in conjunction with a general rate change as described in Minn. Rule 7825.3800 to 7825.4500.

This Ordering Point covers Minn. Rule 7825.4300. It was addressed in the rule requirement above.

The September 3, 2013, Order in Docket No. E-002/GR-12-961, ordering paragraphs 22 and 23 stated:

22. Xcel shall allocate its Conservation Cost Recovery Charge using the per-kWh method as recommended by the Department. The Commission adopts the Department’s proposed changes to ALJ Finding 651 as amended, to read as follows:

651. Although the Company has supported its reasonable method of CIP cost allocation, the Administrative Law Judge acknowledges, for consistent treatment of the allocation of CIP costs for all utilities, consistent with the Commission’s decision in Docket E002/M-11-278, that Xcel should use the per-kWh method of allocating CIP costs.

In the Direct Testimony of Peppin (p. 28), Witness Peppin testifies that Xcel allocated both the CIP and the CCRC via the per kWh method, consistent with previous order and the most recent rate case.

3. Miscellaneous CCOSS Compliance Items

Peppin addresses the following miscellaneous compliance requirements related to CCOSS and cost allocation in his testimony:²²

| Docket | Compliance Item | Descriptions | Addressed |
|-----------------|------------------------------------|--|---|
| E-002/GR-15-826 | June 12, 2017 Order Pt. 9B | Report on method to measure losses | Testimony of Bloch (Distribution) and Benson (Transmission) |
| E-002/GR-15-826 | June 12, 2017 Order at 47 | Exclude loads of customers from D60Sub allocator for whom substation costs have been direct assigned. | 347.52 MW of load for customers directly assigned were excluded from the D60Sub allocator |
| E-002/GR-15-826 | June 12, 2017 Order Point 9.E.II | Base the D10S capacity allocator on Xcel demand coincident with MISO system peak demand | MISO system peak forecasts weren’t available, so Xcel used MISO LRZ1 peak, which corresponds to 99% of NSP load and matched MISO peak in 5 of 10 years. |
| E-002/GR-15-826 | June 12, 2017 Order at 45 | Provide the Commission with the results of multiple methods for functionalizing distribution costs | Xcel provided a Minimum System study supplemented by a Zero Intercept Study |
| E-002/M-19-39 | July 15, 2019 Order Point 3C at 22 | Where Google costs and Revenues are included, provide update to overall Incremental Cost & Benefit Analysis and Rate | |

²² Peppin Direct Testimony, p. 4.



| Docket | Compliance Item | Descriptions | Addressed |
|--------|-----------------|--|-----------|
| | | Case Incremental Cost and Benefit Analysis | |

In addition, Xcel provided its Cost Assignment and Allocation manual, which describes its procedures and processes for allocating costs between its electric and gas divisions, between regulated and unregulated services, and among customer classes.

Xcel provides explanation of the largest revenue deficiency, in Street Lighting. This was the largest deficiency in the last case, and the settlement rates did not fully close the gap at that time.

The spreadsheet containing Xcel’s CCOSS is described as fully linked. Staff has not tested the entire spreadsheet for accuracy, but this fulfills previous Commission orders in E-002/GR-13-868 to improve transparency and ease of review for CCOSS.

4. PUC Staff Comment

Staff believes the CCOSS provided is complete and complies with the minimal standards required for acceptance for a multi-year rate filing.

E. Proposed Rate Design

Xcel Energy’s filing proposes several changes in rate design. The following is a summary of some of the proposed changes and is not meant to be a complete or comprehensive catalog of Xcel’s rate design proposal in this docket.

1. Class Revenue Apportionment

The table below displays Xcel Energy’s proposed apportionment of each customer class’ responsibility for its revenue requirements under current and proposed rates, as well as the proposed dollar amount and percentage increase for each customer class.



| Xcel Energy's Current and Proposed Revenue Apportionment | | | | | | |
|--|---------------------|---------------|------------------|------------------|------------------------|---------------|
| | Number of Customers | Sales (GWH) | Revenues (\$000) | | Increase ²³ | |
| | | | Current | Proposed | (\$000) | % |
| 2020 | | | | | | |
| Residential | 1,170,186 | 8,451 | \$1,165,785 | \$1,253,775 | \$87,990 | 7.55% |
| (% of Total) | (89.43%) | (29.30%) | (37.36%) | (37.75%) | (43.87%) | |
| C&I Non-Demand | 86,287 | 846 | \$108,383 | \$116,798 | \$8,415 | 7.76% |
| (% of Total) | (6.59%) | (2.93%) | (3.47%) | (3.52%) | (4.20%) | |
| C&I Demand | 48,200 | 19,351 | \$1,811,150 | \$1,911,878 | \$100,728 | 5.56% |
| (% of Total) | (3.68%) | (67.10%) | (58.04%) | (57.57%) | (50.22%) | |
| Public Authority | 1,504 | 68 | \$8,379 | \$8,849 | \$470 | 5.61% |
| (% of Total) | (0.11%) | (0.24%) | (0.27%) | (0.27%) | (0.23%) | |
| Lighting | 2,249 | 123 | \$26,709 | \$29,683 | \$2,974 | 11.13% |
| (% of Total) | (0.17%) | (0.43%) | (0.86%) | (0.89%) | (1.48%) | |
| Total | 1,308,426 | 28,838 | 3,120,406 | 3,320,983 | 200,577 | 6.43% |
| 2021 | | | | | | |
| Residential | 1,180,196 | 8,290 | \$1,148,029 | \$1,299,084 | \$151,055 | 13.16% |
| (% of Total) | (89.47%) | (29.20%) | (37.27%) | (37.91%) | (43.58%) | |
| C&I Non-Demand | 86,695 | 835 | \$107,294 | \$121,118 | \$13,824 | 12.88% |
| (% of Total) | (6.57%) | (2.94%) | (3.48%) | (3.53%) | (3.99%) | |
| C&I Demand | 48,425 | 19,075 | \$1,789,883 | \$1,966,558 | \$176,675 | 9.87% |
| (% of Total) | (3.67%) | (67.19%) | (58.11%) | (57.39%) | (50.97%) | |
| Public Authority | 1,506 | 67 | \$8,335 | \$9,158 | \$823 | 9.87% |
| (% of Total) | (0.11%) | (0.24%) | (0.27%) | (0.27%) | (0.24%) | |
| Lighting | 2,249 | 121 | \$26,668 | \$30,930 | \$4,262 | 15.98% |
| (% of Total) | (0.17%) | (0.43%) | (0.87%) | (0.90%) | (1.23%) | |
| Total | 1,319,071 | 28,388 | 3,080,209 | 3,426,848 | 346,639 | 11.25% |
| 2022 | | | | | | |
| Residential | 1,180,196 | 8,294 | \$1,147,973 | \$1,351,742 | \$203,769 | 17.75% |
| (% of Total) | (89.47%) | (29.30%) | (37.41%) | (38.26%) | (43.85%) | |
| C&I Non-Demand | 86,695 | 827 | \$106,421 | \$124,259 | \$17,838 | 16.76% |
| (% of Total) | (6.57%) | (2.92%) | (3.47%) | (3.52%) | (3.84%) | |
| C&I Demand | 48,425 | 18,992 | \$1,779,257 | \$2,016,131 | \$236,874 | 13.31% |
| (% of Total) | (3.67%) | (67.10%) | (57.98%) | (57.06%) | (50.97%) | |
| Public Authority | 1,506 | 67 | \$8,328 | \$9,428 | \$1,100 | 13.21% |
| (% of Total) | (0.11%) | (0.24%) | (0.27%) | (0.27%) | (0.24%) | |
| Lighting | 2,249 | 122 | \$26,724 | \$31,846 | \$5,122 | 19.17% |
| (% of Total) | (0.17%) | (0.43%) | (0.87%) | (0.90%) | 1.10% | |
| Total | 1,319,071 | 28,303 | 3,068,703 | 3,533,406 | 464,703 | 15.14% |

Source: Huso Direct, November 1, 2019, Schedule 3, pp. 1-3

²³ The total increase for 2020, 2021 and 2022 in this table do not exactly match the proposed increase

As the table displays, each customer class would see an increase in each year under Xcel Energy's proposed apportionment; in addition, the rate increase grows progressively larger for each customer class in each successive year of the multi-year plan.

2. Basic Monthly Service Charges

Xcel Energy proposed a \$1.50 increase in the fixed monthly customer charges for residential and small commercial customers.²⁴ The table below represent Xcel's proposed fixed charge increases for the residential and small general service classes.

| Service Category | Current | Proposed | Increase | |
|---|---------|----------|----------|--------|
| | | | \$ | % |
| Residential Standard - Overhead | \$8.00 | \$9.50 | \$1.50 | 18.75% |
| Residential Standard - Underground | \$10.00 | \$11.50 | \$1.50 | 15.00% |
| Residential Electric Heating - Overhead | \$10.00 | \$11.50 | \$1.50 | 15.00% |
| Residential Electric Heating - Underground | \$12.00 | \$13.50 | \$1.50 | 12.50% |
| Small General Service | \$10.00 | \$11.50 | \$1.50 | 15.00% |

Source: Huso Direct, November 1, 2019, Schedule 5, pp 1-2.

3. Energy (per kWh) rates

The table below represent Xcel's proposed energy rate increases for the residential and small general service classes.

| Xcel Energy's proposed 2020 Energy Rate Increases (per kWh rates do not include fuel) | | | | |
|--|-------------------------|--------------------------|-----------|--------|
| | Current (per kWh) | Proposed (per kWh) | Increase | |
| | | | \$ | % |
| Residential base rates | | | | |
| Summer | \$0.10301 | \$0.11577 | \$0.01276 | 12.39% |
| Winter | \$0.08803 | \$0.09985 | \$0.01182 | 13.43% |
| Winter - Electric Heating | \$0.05988 | \$0.06789 | \$0.00801 | 13.38% |
| Small General Service base rates | | | | |
| Summer | \$0.09256 | \$0.10589 | \$0.01333 | 14.40% |
| Winter | \$0.07757 | \$0.08998 | \$0.01241 | 16.00% |

Source: Huso Direct, November 1, 2019, Schedule 5, pp. 1-2.

amounts in Table 1 of these briefing papers.

²⁴ Specifically, the Company proposed a \$1.50 increase for the following rate schedules: Residential Service, Residential Time-of Day Service, Small General Service, and Small General Time-of Day Service.

4. Time of Use Service

Xcel's existing Time of Day tariff is a two-period time-of-use rate design that was originally established around 1980, using a 12-hour on-peak period of 9 a.m. to 9 p.m. during weekdays. An Energy Charge Credit provision that was later added to the tariff for a partial three-period price signal by lowering the price of energy that typically occurs in the middle of the hour off-peak period. According to Xcel, relative to the C&I Demand class, these tariffs are used by 11 percent of customers and represent 54 percent of the kWh sales.

In this rate case, Xcel proposed a new three-part Time of Use (TOU) rate for Commercial & Industrial (C&I) Demand class customers. The TOU rate has different pricing by season (summer, winter, shoulder) and by time of day (on-peak, mid-peak, off-peak). This new rate removes the Energy Charge Credit provision in the current General Time of Day (TOD) tariff and introduces a separate Distribution Demand charge.

Initially, the rate will be offered on an experimental and voluntary basis to C&I customers in the commercial electric vehicle (EV) pilots. In addition, Xcel proposed to limit the number of customers on this rate to test and gain insights on the workings of this rate prior to deploying this rate more broadly to other C&I customers.

The proposed TOU tariff is envisioned to replace the current two-period for other customers, including Residential customers, after metering and other requirements have been satisfied. Advanced Metering Infrastructure (AMI) metering is necessary to both calibrate and bill a new TOU tariff. Xcel is planning to begin installing AMI meters in 2019 and will substantially complete the installation of AMI for all customers by the end of 2024.²⁵ Xcel's proposed C&I Demand TOU rate is described by Xcel's witness, Lon Huber, in his Direct Testimony.

(In Xcel's Stay-Out Proposal docket, Fresh Energy submitted comments indicating that if Xcel's Stay-Out Proposal is approved and Xcel is allowed to withdraw this rate case, Fresh Energy recommends Xcel submit this Time of Day rate proposal in a miscellaneous tariff filing.)

5. Revenue Decoupling

The Commission approved a three-year decoupling pilot in Docket No. E-002/GR-13-868 via its May 8, 2015 Findings of Fact, Conclusions, and Order. In the Xcel's last rate case, the Commission extended the decoupling pilot through 2019, to match the Company's multi-year rate plan, via its June 12, 2017 Findings of Fact, Conclusions, and Order in Docket No. E-002/GR-15-826. The current decoupling mechanism expires at the end of 2019.

Xcel is proposing the full decoupling mechanism that was approved in the previous two cases with some changes, which include the following:

²⁵ The new AMI meters are being proposed as part of Xcel's Advanced Grid Intelligence and Security (AGIS) initiative in this case. The AGIS Initiative is discussed in the Direct Testimony of Xcel witness, Kelly Bloch.

- **Additional Rate Codes Included:** Xcel proposed to add the Small General Service Direct Current (A13) and Small Municipal Pumping Service (A40) to the Small Commercial Non-Demand Class within the Decoupling Mechanism. Further, Xcel is adding residential time-of-use pilot customers to the Decoupling Mechanism since this pilot was not in existence when the last mechanism was approved by the Commission. The bill protections associated with the residential time-of-use pilot will also be added to the Decoupling Mechanism and collected from all customers subject to this mechanism.
- **Cap:** Xcel proposed to increase the cap on surcharges to five percent of base revenues by class, compared to the current cap of three percent. This is meant to reflect a proposed increase in energy efficiency and demand response in the current IRP.
- **Demand Customers:** Instead of the sales true-up currently in place for the demand customers, Xcel proposed changing to a full decoupling mechanism using a RDM-D model.
- **Duration:** The Company proposed to make the decoupling mechanisms permanent in this rate case.

The decoupling mechanism measures sales revenues against a baseline revenue-per-customer by class, with over- or under-recoveries calculated and deferred each month. The annual result is credited or charged to customers through a \$/kWh factor applied to each individual customer's usage each month for twelve months as a separate line item on their bill. Xcel proposed to begin calculating monthly decoupling deferrals in January 2021, at the same time interim rates are in effect. Monthly baseline fixed revenue per customer and baseline fixed energy charges will be calculated using 2021 test year sales and rates, including interim rates, in effect during each month of the deferral. Xcel's Revenue Decoupling Mechanism is more fully described by Xcel Witness, Lon Huber, in his Direct Testimony.

(Revenue decoupling is also discussed in the proposed sales forecast and sales true-up section of these briefing papers.)

VII. Staff Analysis

A. Should this filing be accepted, and if so, as of what date?

1. Statutes, Rules, and Orders

Minnesota Statute §216B.16, Subdivision 1, requires a public utility to give the Commission a sixty-day notice prior to changing rates. The statute requires the notice to include:

... statements of facts, expert opinion, substantiating documents, and exhibits, supporting the change requested, and state the change proposed to be made in the rates then in force, and the time when the modified rates will go into effect.

Minnesota Rules, Parts 7825.3100 through 7825.4400, implement the above statute by setting out specific rate case filing requirements. Various parts of the Commission's rules of practice and procedure, Minnesota Rules, Chapter 7829, are also relevant.

2. Completeness and Date of Acceptance

Staff reviewed this filing for compliance under Minn. Stat. § 216B.16 and Minn. Rules 7825.3100 through 7825.4400. In Volume 2A of the Application, in Schedule 2 of Xcel's policy witness Greg Chamberlain's pre-filed direct testimony, there is a Completeness Checklist that lists rate case filing requirements that apply to the Company. The table describes the filing requirements and generally identifies the location in the Application where each compliance item is addressed.

Staff thinks that the Company has made a good faith effort to comply and respond to the orders issued in the last rate case as well as other orders that have a bearing on this case.

However, the Department expressed concerns that certain Xcel budget information was not electronically filed with the Application. Xcel electronically filed its supplemental budget information as requested by the Department on November 8, 2019. The Department recommended the Commission accept Xcel's application as being substantially complete as of November 8, 2019.

Xcel objected to the Department's recommendation and argued that no party was impeded in their ability to review this information and requests that the Commission find its application to be complete as of November 1, 2019.

Staff notes that finding and then accepting the case as substantially complete as of November 8, 2019 would mean that the Commission does not need to authorize interim rates to go into effect until January 7, 2020.

B. If this filing is accepted, should the proposed rates be suspended, pursuant to Minn. Stat. §216B.16, subd. 2?

If the Commission accepts this filing, Staff recommends that the Commission suspend the proposed final rates to allow parties to investigate the reasonableness of the requested increase. Once rates are suspended, and while the Company's filing is investigated and parties are in litigation, statute provides for use of interim rates during the suspension period. These rates are subject to refund if they are higher than approved final rates.

The statutory deadline for the Commission to issue its final order in this matter is ten months from the date this filing was found to be substantially complete, pursuant to Minn. Stat. §216B.16, Subd. 2(a). If this case is accepted as of November 1, 2019, then the Commission's deadline for issuing an order would be September 1, 2020. (If this case is accepted as of November 8, 2019, then the Commission's deadline for issuing an order would be September 8, 2020.)

However, the Commission has the authority under statute to set a deadline up to 180 days later in this matter. Pursuant to Minn. Stat. § 216B.16, Subd. 2(f), the Commission may extend the deadline by 90 days if there are other general rate cases pending:

If the commission finds that it has insufficient time during the suspension period to make a final determination of a case involving changes in general rates because of the need to make a final determination of any pending case involving changes in general rates under this section or section 237.075, the commission may extend the suspension period to allow up to a total of 90 additional calendar days to make the final determination. An extension of the suspension period under this paragraph does not alter the setting of interim rates under subdivision 3.

Pursuant to Minn. Stat. § 216B.16, Subd. 19(f), the Commission may extend the statutory deadline for an additional 90 days if the applicant has proposed a multiyear rate plan:

In reviewing a multiyear rate plan proposed in a general rate case under this section, the commission may extend the time requirements for issuance of a final determination prescribed in this section by an additional 90 days beyond its existing authority under subdivision 2, paragraph (f).

There are several other rate cases currently pending. Dakota Electric filed an electric rate case on September 10, 2019 (Docket E-111/GR-19-478). Great Plains filed a natural gas rate case on September 27, 2019 (Docket G-004/GR-19-511). CenterPoint Energy filed a natural gas rate case on October 28, 2019 (Docket G-008/GR-19-524). And Minnesota Power filed an electric rate case on November 1, 2019 (Docket No. E-105/GR-19-442). Those cases have been or are likely to be referred to the Office of Administrative Hearings for contested case proceedings.

In addition, Xcel, in this docket, requested a multiyear rate plan. Thus, the Commission may extend the deadline in this Xcel rate case under both Minn. Stat. § 216B.16, Subd. 2(f) and Minn. Stat. § 216B.16, Subd. 19(f).

Absent an extension of time, the final order in the instant case would be September 1, 2020, with much of that time overlapping the time period for other cases. Staff thinks extra time would allow for more flexible scheduling and more time for the Commission to make its decision. Moreover, because CenterPoint, MP, and Xcel filed rate cases in the same week, the resources for the Commission to process these filings simultaneously do not exist. Staff believes that in addition to the two 90-day extensions of the 10-month deadline permitted by statute, the Commission should request a waiver of the statutory deadline from Xcel until at least April 12, 2021, for the Commission to issue its final determination.

The Department, the OAG, and other parties who wish to participate in this case could also be disadvantaged, and the records in these cases may not be developed adequately by the parties, if the Commission does not extend the suspension period and Xcel does not offer a waiver of the statutory deadline. The Department and other interveners will need to simultaneously prepare testimony and participate in evidentiary hearings in the Xcel case while preparing briefs, and participating in oral argument, and possibly work on reconsideration in the DEA, Great Plains, CenterPoint and Minnesota Power rate cases.

Staff thinks that absent the two ninety-day extensions of time and an additional waiver of the deadline until April 12, 2021 for issuing the Commission's Order in the Xcel rate case, there might not be an adequate amount of time for the Commission to make determinations in the pending rate cases. Staff believes extra time in this proceeding will allow for more flexible scheduling and a more careful evaluation of the Company's proposal.

C. If this filing is accepted, should this matter be referred to the Office of Administrative Hearings ("OAH") for a contested case?

The Department, the OAG, and XLI recommended the Commission refer this matter to the OAH for a contested case proceeding. The Commission is required to refer a rate case to the OAH for a contested case proceeding unless the Commission finds that all significant issues can be resolved to its satisfaction, pursuant to Minn. Stat. § 216B.16, subd. 2(b). Staff does not think the Commission can make such a finding absent a fully developed record and recommends setting this matter for a contested case hearing.

The statutory deadline, pursuant to Minn. Stat. § 216B.16, subd. 2(a), for the parties, the ALJ and the Commission to complete their work on this matter is ten months from the date the Commission accepts this filing as substantially complete. If the Commission finds the filing substantially complete as of November 1, 2019, and suspends the proposed final rates for ten months, until September 1, 2020, then staff recommends the Commission request the ALJ's report by June 1, 2020. This is consistent with the Commission's recent practice of asking for the ALJ report at least three months prior to the Commission's statutory deadline for issuing its order. Staff thinks this is reasonable given the size and complexity of this case, and to ensure the Commission has sufficient time to consider this matter and issue its order within the ten-month statutory deadline.

If the Commission suspends final rates for a longer period, for example 180 days, staff recommends the Commission request the ALJ report by December 1, 2020, to allow three months before the final order is due. Moreover, in the event Xcel commits in writing to waive

its right to a final determination on March 1, 2021, then Staff believes the Commission should request the ALJ's report on January 11, 2021. Staff thinks this is reasonable given the longer suspension period, other pending cases, and it would provide the Commission flexibility to address other potential cases.

D. Interventions

CUB asked the Commission to provide instruction as to the rules governing intervention. Staff notes that parties requesting intervenor status before a case is referred to the OAH fall under the Commission's intervention rules in the Commission's rules of practice and procedures, Minn. Rule 7829.0800. If there are no objections to the intervention, the intervenor becomes a party and remains a party after the case is referred to the OAH for a contested case proceeding.

Parties requesting to become intervenors after the case is referred to the OAH fall under the OAH rules of practice and procedure, Minn. Rule 1400.6200. Under the OAH rules, parties that have been denied requests for intervention may file motions, under Minn. Rule 1400.6600 to ask the ALJ to send his or her decision to the Commission for review, pursuant to Minn. Rule 1400.7600 (Certification). The ALJ then decides whether the request merits certification, and, if so, whether the certification should occur right away or at the end of the case.

In any event, the Commission may wish to state its position on the record and note that parties requesting intervenor status should be considered from a view towards inclusivity, transparency, and completeness of the record, rather than limiting participation in the case in the interest of administrative efficiency.

Since CUB has expressed concerns about being allowed to intervene in this case, the Commission may want to pre-emptively allow CUB to intervene prior to referring this matter to the OAH.

E. Identification of issues of special interest or requiring additional, supplemental testimony

In its November 1, 2019 filing, Xcel provided a schedule (Completeness Checklist) of issues addressed in the application. That schedule includes a list of information required under Commission Policies and Orders and identifies where in Xcel's pre-filed testimony these issues are addressed. The Commission may want to include a general request that parties thoroughly review issues identified in the Commission's past orders. If the Commission wants to give special emphasis to any of these particular requirements, it could do so at this time.

The Commission may also want to include in its Notice of and Order for Hearing, a request that parties thoroughly address and develop (in addition to the standard rate case issues) a complete record (e.g. in testimony, at hearing, and if applicable, in settlement documents) on the following issues noted and any additional issues the Commission may identify.

Xcel's Petition includes costs associated with the Advanced Grid Intelligence and Security (AGIS) project. AGIS' 2020 revenue requirement impact is \$10.415 million. AGIS is a multi-year project that, through 2024, will have required over \$370 million in capital investments. As

discussed in these briefing papers, the possibility exists that Xcel’s Stay-Out proposal will be approved and, if it does, the Company will seek to recover these costs through its Transmission Recovery Rider (TCR). Due to the uncertainty regarding whether AGIS costs will ultimately be recovered, the Commission may want to request that, during the contested hearing, a full record be developed regarding this issue. Staff notes that the 2020 revenue requirement shown Exhibit MCG-1, Schedule 9 is based on the incorrect 7.45% ROR that is also discussed in these briefing papers. Staff estimates that if the corrected 7.42% ROR is used, the 2020 revenue requirement will be reduced by approximately \$10,000 to \$10.405 million. If the Stay-Out Proposal is approved, Xcel will have to use a 7.01% ROR (based on a 9.06% ROE) in its TCR Rider; therefore, the AGIS-related revenue requirement would be further reduced to \$10.208 million. Table XXXX captures all the revised AGIS-related revenue requirement calculations.

Table XXXX - AGIS 2020 Revenue Requirement Impact

| | 2020 Rate Case, as filed | 2020 Rate Case, corrected | 2020 TCR Revenue Requirement | Difference |
|------------------------------------|--------------------------|---------------------------|------------------------------|------------|
| Rate Base | | | | |
| Plant Investment | \$29,009,905 | \$29,009,905 | \$29,009,905 | \$0 |
| Depreciation Reserve | (\$1,762,406) | (\$1,762,406) | (\$1,762,406) | \$0 |
| CWIP | \$4,923,865 | \$4,923,865 | \$4,923,865 | \$0 |
| Accumulated Deferred Taxes | (\$1,186,806) | (\$1,186,806) | (\$1,186,806) | \$0 |
| Total Rate Base | \$30,984,558 | \$30,984,558 | \$30,984,558 | \$0 |
| | | | | |
| Expenses | | | | |
| Book Depreciation | \$2,284,099 | \$2,284,099 | \$2,284,099 | \$0 |
| Annual Deferred Tax | \$1,513,864 | \$1,513,864 | \$1,513,864 | \$0 |
| | | | | |
| | | | | |
| | | | | |
| Tax Preference Items: | | | | |
| Tax Depreciation & Removal Expense | \$7,589,079 | \$7,589,079 | \$7,589,079 | \$0 |
| Avoided Tax Interest | \$128,118 | \$126,279 | \$137,926 | (\$11,647) |
| | | | | |
| AFUDC | \$626,878 | \$626,878 | \$626,878 | \$0 |
| | | | | |
| Returns | | | | |
| Debt Return | \$647,577 | \$638,282 | \$697,153 | (\$58,871) |
| Equity Return | \$1,660,772 | \$1,660,772 | \$1,474,865 | \$185,907 |
| | | | | |
| | | | | |
| Tax Calculations | | | | |
| Equity Return | \$1,660,772 | \$1,660,772 | \$1,474,865 | \$185,907 |

| | 2020 Rate Case, as filed | 2020 Rate Case, corrected | 2020 TCR Revenue Requirement | Difference |
|--------------------------------|--------------------------|---------------------------|------------------------------|------------|
| Taxable Expenses | \$3,797,963 | \$3,797,963 | \$3,797,963 | \$0 |
| Plus Tax Additions | \$128,118 | \$126,279 | \$137,926 | (\$11,647) |
| Minus Tax Deductions | (\$8,215,957) | (\$8,215,957) | (\$8,215,957) | \$0 |
| Total Tax Calculations | (\$2,629,104) | (\$2,630,943) | (\$2,805,203) | \$174,260 |
| Tax gross-up factor | 0.403351 | 0.403351 | 0.403351 | 0.403351 |
| Current Income Tax Requirement | (\$1,060,452) | (\$1,061,193) | (\$1,131,481) | \$70,288 |
| | | | | |
| Capital Revenue Requirements | \$4,418,983 | \$4,408,946 | \$4,211,621 | \$197,325 |
| O&M Expense | \$5,996,154 | \$5,996,154 | \$5,996,154 | \$0 |
| Total Revenue Requirements | \$10,415,137 | \$10,405,100 | \$10,207,775 | \$197,325 |
| | | | | |
| Long Term Debt | 2.06% | 2.03% | 2.18% | |
| Short Term Debt | 0.03% | 0.03% | 0.07% | |
| Common Equity | 5.36% | 5.36% | 4.76% | |

F. If this filing is accepted, should interim rates be set as requested by the Company?

Xcel proposed an interim revenue deficiency of approximately \$121.95 million, or 4.06%, for 2020 and a second, incremental interim rate increase of \$143.98 million, or 4.88%, for 2021. Xcel requested that the initial interim rate increase be made effective for service rendered on and after January 1, 2020, subject to refund pending final Commission action on the general rate increase application.

1. Interim Rate Statute

Minn. Stat. § 216B.16, subd. 3, states in part that:

(a) Notwithstanding any order of suspension of a proposed increase in rates, the commission shall order an interim rate schedule into effect not later than 60 days after the initial filing date. The Commission shall order the interim rate schedule ex parte without a public hearing. ... [and]

(b) Unless the Commission finds that exigent circumstances exist, the interim rate schedule shall be calculated using the proposed test year cost of capital, rate base, and expenses, except that it shall include: (1) a rate of return on common equity for the utility equal to that authorized by the commission in the utility's most recent rate proceeding; (2) rate base or expense items the same in nature and kind as those allowed by a currently effective order of the commission in the utility's most recent rate proceeding; and (3) no change in the existing rate design...

2. Effective Date for Interim Rates

If the Commission accepts Xcel’s filing as substantially complete as of November 1, 2019, and suspends the proposed final rates, then the Commission must order interim rates into effect within 60 days, i.e. no later than December 31, 2019, pursuant to Minn. Stat. § 216B.16, subd. 3(a). Because Xcel has requested authorization to wait until January 1, 2020 to implement interim rates, the Commission may wish to indicate that Xcel is permit to waive its right to collect authorized interim rates until January 1.

If the Commission accepts Xcel’s filing as substantially complete as of November 8, 2019, and suspends the proposed final rates, then the Commission must order interim rates into effect no later than January 7, 2020.

3. Financial Matters

Xcel proposed an interim rate increases, subject to refund, of approximately \$47.9 million based on the following revenue summary:

| Table X, Proposed Interim Rate Revenue Increase | | |
|--|----------------------|----------------------|
| | 2020 | 2021 |
| Rate Base | \$7,795,574,000 | \$8,226,239,000 |
| Rate of Return | 6.82% | 6.82% |
| Required Operating Income | \$531,658,000 | \$561,029,000 |
| Net Operating Income | \$444,756,000 | \$371,529,000 |
| Income Deficiency | \$86,902,000 | \$265,935,000 |
| Revenue Conversion Factor | 1.40335 | 1.40335 |
| Revenue Deficiency | \$121,954,000 | \$265,935,000 |

Schedule B of Xcel’s interim rates petitions describes in detail the adjustments and differences between Xcel’s proposed interim rates and its request for final rates. The largest adjustment for 2020 appears to be for the cost of capital.

4. Cost of Capital

Minn. Stat. § 216B.16, subd. 3(b), provides among other things, that unless “the commission finds that exigent circumstances exist, the interim rate schedule shall be calculated using the proposed test year cost of capital, rate base, and expenses, except that it shall include: (1) a rate of return on common equity for the utility equal to that authorized by the commission in the utility’s most recent rate proceeding. . . .”

The proposed 2020 test-year cost of capital is:

| Table 8: Proposed Cost of Capital | | | |
|--|-------------------------|------------------|----------------------|
| Component | Percent of Total | Cost Rate | Weighted Cost |
| | | | |

| | | | |
|-----------------|---------|--------|-------|
| Long-Term Debt | 46.63% | 4.35% | 2.03% |
| Short-Term Debt | 0.87% | 2.97% | 0.03% |
| Common Equity | 52.50% | 10.20% | 5.36% |
| Total (ROR) | 100.00% | | 7.42% |

In its most recent rate case (E-002/GR-15-826) Xcel was authorized to represent its rate of return as being 7.08 percent based on an ROE of 9.20% as follows:

| Table 9: Previous Rate Case Authorized Cost of Capital | | | |
|---|-------------------------|------------------|----------------------|
| Component | Percent of Total | Cost Rate | Weighted Cost |
| Long-Term Debt | 45.81% | 4.75% | 2.18% |
| Short-Term Debt | 1.69% | 4.31% | 0.07% |
| Common Equity | 52.50% | 9.20% | 4.83% |
| Total (ROR) | 100.00% | | 7.08% |

The Company is proposing an interim cost of capital of 6.82 percent based on the following:

| Table 9: Proposed Interim Rate Cost of Capital | | | |
|---|-------------------------|---------------------|----------------------|
| Component | Percent of Total | Cost Rate | Weighted Cost |
| Long-Term Debt | 46.63% | 4.35% | 2.03% |
| Short-Term Debt | 0.87% | 2.97% | 0.03% |
| Common Equity | 52.50% | 9.06% ²⁶ | 4.76% |
| Total (ROR) | 100.00% | | 6.82% |

5. Rate Design

Xcel Energy proposed that a uniform percentage equal to the proposed interim rate increases needed to recover the interim revenue deficiencies be applied to all the base rate elements listed in the Interim Rate Surcharge Rider. Xcel's interim rates revenue requests were determined using the 2020 test year and 2021 plan year revenue requirements. Xcel requested a 2020 interim rate adjustment that will increase its base rate revenues by \$113.5 million, or 3.76 percent, above the test year gross revenues and an incremental 2021 interim rate adjustment that will increase base rate revenues by an additional \$145.4 million or an incremental 4.9 percent above the test year gross revenues.

However, Staff's review of Xcel's financial schedules uncovered the following inconsistency:

²⁶ Pursuant to OP 3 of Docket No. E-002/M-17-797, the Commission ruled that Xcel must use an ROE of 9.06 percent in all electric dockets that require an ROE determination until the Commission issues an order in Xcel's next rate case authorizing a different ROE.

Interim rate increase – financial schedules calculate the interim rate increase at \$121.95 million; however, the description of the filing contains references a \$113.5 million interim rate increase. In response to Staff’s question regarding this matter, Xcel explained that the \$113.5 million related to an early calculation that was subsequently updated to the \$121.95 million. Xcel acknowledged that the description did not capture the update.

Regardless of the amount of the interim revenue deficiency, to collect these deficiencies, an interim rate adjustment will be uniformly billed as a percent increase on the base rate portion of customers’ bills (exclusive of fuel costs and certain rate riders) for 2020 and another incremental percent increase, if approved, on the base rate portion of customers’ bills (exclusive of fuel costs and certain rate riders) for 2021.

Because the interim rate adjustments will not apply to certain rate riders and charges, Xcel explained that higher interim rate percent increases are required to collect the interim revenue deficiency. Xcel included the rate schedules containing proposed interim rates along with the interim revenue impacts in Volume 1, Interim Rate Schedules 1 & 2 of its November 1, 2019 filing. Xcel explained that the difference in percent results from the unbundling of fuel costs approved in Xcel’s 2005 rate case (Docket No. E002/GR-05-1428).

With respect to interim customer bills, the Commission’s Policy Statement on Interim Rates suggests that changes in interim rates be shown on customer bills as a separate line item “if practical.” Xcel explained that the interim rate amount will be shown as a separate line item stated as “Interim Rate Adjustment,” and will reflect the total amount of the interim change applied to the bill.

Staff recommends approval of Xcel’s interim rate design methodology—i.e. applying an across-the-board increase to all customer classes—because it fulfills the “no change in existing rate design” direction contained in Minn. Stat. §216B.16, subd. 3, and it is consistent with the Commission’s Statement of Policy on Interim Rates, which states that “...interim rates should consist of the existing rate schedules with an interim rate adjustment equal to the overall requested interim increase percentage.”²⁷

6. Methods and Procedure for Refunding

Pursuant to Minn. Stat. §216B.16, subd. 3, Xcel’s filing contains Xcel’s Agreement and Undertaking. It states that the Company agrees and undertakes to refund to its customers the

²⁷ “The Commission interprets that ‘no change in the existing rate design’ applies to both the allocation of revenue responsibility among customer classes (or product and service categories) and the structure of the individual rates. Accordingly, interim rates should consist of the existing rate schedules with an interim rate adjustment equal to the overall requested interim increase percentage. This procedure will assure that consumption decisions will be made on the same basis as under existing rates and will allow refunds, if necessary, to be made across-the-board to all customers such that the final rates are prospective only. . . . The interim rate adjustment should be shown as a separate item on the customer’s bill, if practical.” Minnesota Public Utilities Commission, Statement of Policy on Interim Rates, April 14, 1982, pp. 1-2.

amount collected in excess of final authorized rates, if any collected during the interim rate period, plus interest at the current rate determined by the Commission, computed from the effective date of the interim rates through the date of refund.

VIII. Public Hearings

The scheduling of the public hearings is typically discussed and decided around the time of the pre-hearing conference by the Administrative Law Judge (ALJ) in consultation with the Company, parties, and the Commission. A formal Commission decision on this matter is not needed for the purpose of issuing the Commission’s orders; however, some direction from the Commission on the appropriate number and location of public hearings to recommend to the ALJ would be welcome.

Based upon e-filed sign-in sheets and hearing transcripts, in Xcel’s 2013 and 2015 rate cases, the public hearing attendance was as follows.

| Table XX: Public Hearings | | |
|--|---|---|
| | 2013 | 2015 |
| Public Hearing Locations | Minneapolis Saint Paul Woodbury Eden Prairie St. Cloud Mankato | Saint Paul Minneapolis Mankato Woodbury Eden Prairie Red Wing St. Cloud |
| Public Hearing – Estimated Attendance | 250 | 89 |

In the interest of developing a framework for public hearings in this proceeding, staff’s recommendation would be for the ALJ to conduct public hearings similar in schedule and number as was done in the Company’s 2015 rate case. Any additional direction from the Commission on the appropriate number and location of public hearings to recommend to the ALJ would be welcome.

IX. Administrative and Compliance Issues

The Commission's practice in most rate cases has been to require: a) notice to municipalities and counties of the proposed rate change, b) public hearings at locations within the company's service area, and c) notice of evidentiary and public hearings.

The decision alternatives contain ordering language that is similar to the language used in notice and orders for hearing in previous general rate proceedings. Staff recommends that this language be incorporated into the Commission's decisions in this docket. General rate case notice requirements can be found in Minn. Stat. § 216B.16, subd. 1, and Minn. Rules, Part 7829.2400, subparts 3 and 7.

The Commission's practice has also been to require interim rate compliance filings. These filings typically include tariff sheets with supporting documents, and a Commission-approved notice to customers of the interim rate increase. Companies are also required to keep records of their sales and collections to support any potential interim rate refund obligation. The decision alternatives contain language typical of the language used in previous Commission Orders authorizing interim rates.

Staff recommends the Commission require all of the listed Administrative and Compliance decision alternatives.

Regarding the Approval of Notices and Customer Bill Inserts decision alternative, customer notices are generally administrative items that are negotiated between Commission staff and the utility. Staff has been working with the Company to finalize these notices prior to issuance. Authority to approve notices is usually delegated to the Commission's Executive Secretary for the duration of the proceeding. Staff recommends continuing that practice here.

X. Decision Alternatives

Acceptance of the Rate Case

1. Accept this filing as being in proper form and substantially complete as of November 1, 2019. (Xcel), or
2. Accept this filing as being in proper form and substantially complete as of November 8, 2019. (DOC)

Withdrawal of the Rate Case

3. If the Commission approves Xcel's Stay-Out Proposal in docket E-002/M-19-688, require Xcel to withdraw this filing.

If decision alternatives #1 or #2 are adopted, then the Commission should also decide the following:

Suspension of Proposed Final Rates

4. If decision alternative #1 is adopted, find that the Commission has insufficient time to make a final determination within the 10-month period because of the need to make a final determinations in other pending cases involving changes in general rates and because of Xcel's proposal for a multiyear rate plan, find that the rates in this case should be suspended for an additional one-hundred-and-eighty days,

- pursuant to Minn. Stat. § 216B.16, subds. 2(a),²⁸ 2(f)²⁹ and 19(d),³⁰ until March 1, 2021.
5. If decision alternative #1 is adopted, find the Commission has insufficient time to make a final determination within a 10-month period because of the need to make a final determination in other pending cases involving changes in general rates. Find that the rates in this case should be suspended for an additional one-hundred-and-eighty days plus approximately 45 days, until April 12, 2021, conditioned on Xcel agreeing to waive its right to a decision within the statutory timeframe.
 6. If decision alternative #2 is adopted, find that the Commission has insufficient time to make a final determination within the 10-month period because of the need to make a final determinations in other pending cases involving changes in general rates and because of Xcel's proposal for a multiyear rate plan, find that the rates in this case should be suspended for an additional one-hundred-and-eighty days, pursuant to Minn. Stat. § 216B.16, subds. 2(a), 2(f) and 19(d), until March 8, 2021.
 7. If decision alternative #2 is adopted, find the Commission has insufficient time to make a final determination within a 10-month period because of the need to make a final determination in other pending cases involving changes in general rates. Find that the rates in this case should be suspended for an additional one-hundred-and-eighty days plus approximately 45 days, until April 20, 2021, conditioned on Xcel agreeing to waive its right to a decision within the statutory timeframe.
 8. Allow this case to proceed on a normal ten-month timeline.

If the Commission suspends the proposed final rate, then the Commission should also decide the remaining items:

²⁸ Minn. Stat. §216B.16, subd. 2(a). Whenever there is filed with the commission a schedule modifying or resulting in a change in any rates then in force as provided in subdivision 1, the commission may suspend the operation of the schedule by filing with the schedule of rates and delivering to the affected utility a statement in writing of its reasons for the suspension at any time before the rates become effective. The suspension shall not be for a longer period than ten months beyond the initial filing date except as provided in this subdivision or subdivision 1a.

²⁹ Minn. Stat. §216B.16, subd. 2(f). If the commission finds that it has insufficient time during the suspension period to make a final determination of a case involving changes in general rates because of the need to make a final determination of any pending case involving changes in general rates under this section or section 237.075, the commission may extend the suspension period to allow up to a total of 90 additional calendar days to make the final determination. An extension of the suspension period under this paragraph does not alter the setting of interim rates under subdivision 3.

³⁰ Minn. Stat. §216B.16, subd. 19(d). In reviewing a multiyear rate plan proposed in a general rate case under this section, the commission may extend the time requirements for issuance of a final determination prescribed in this section by an additional 90 days beyond its existing authority under subdivision 2, paragraph (f).

Referral of this Matter to the Office of Administrative Hearings for a Contested Case Proceeding

9. If decision alternative #4 is adopted, request the ALJ's report on or before December 1, 2020. If the deadline for the Commission's decision is extended beyond ten months plus one-hundred-and-eighty days at any point during this proceeding for any reason (e.g. settlement discussions, waiver, etc.) request the ALJ's report at least three months before the extended deadline for the Commission's decision. (If decision alternative #6 is adopted, then request the ALJ's report on or before December 8, 2020.)
10. If decision alternative #5 is adopted, request the ALJ's report on or before January 11, 2021. If the deadline for the Commission's decision is extended beyond ten months plus one-hundred-and-eighty days at any point during this proceeding for any reason (e.g. settlement discussions, waiver, etc.) request the ALJ's report at least three months before the extended deadline for the Commission's decision. (If decision alternative #7 is adopted, then request the ALJ's report on or before January 15, 2021.)
11. If decision alternative #8 is adopted, request the ALJ's report at least three months before the deadline for the Commission's decision. If the deadline for the Commission's decision is extended beyond the ten or thirteen months, request the ALJ's report at least three months before the extended deadline for the Commission's decision.

Issues Requiring Development

12. Identification of issues requiring development of a complete record in this case:
 - a. The standard rate case issues,³¹
 - b. Request parties to thoroughly review and develop a full record on the following:
 - i. Review of issues from past Commission Orders.
 - ii. Reasons for \$26.0 million increase in transmission costs, \$15.9 million increase in distribution costs, \$6.6 million decrease in customer accounting, \$10.5 million increase in customer service and information costs and \$35.9 million increase in administrative and general costs.³²

³¹ The standard rate case issues are: 1) Is the test year revenue increase sought by the Company reasonable or will it result in unreasonable and excessive earnings by the Company? 2) Is the rate design proposed by the Company reasonable? and 3) Are the Company's proposed capital structure and return on equity reasonable? Notice and Order for Hearing, In the Matter of the Application of Minnegasco, a Division of NorAm Energy Company, for Authority to Increase Natural Gas Rates in Minnesota, Docket No. G-008/GR-95-700, p. 3, October 4, 1995

³² Over the three-year plan.

- iii. Determine what interest rate should be applied to any prospective interim rate refunds.
- iv. Cost recovery for Xcel's Advanced Grid Intelligence and Security project.
- v. Has the Company demonstrated that its proposed base rates appropriately exclude Fuel Clause Adjustment-related costs?
- vi. Any other issue as identified by the Commission.

Effective Date of Interim Rates

13. Authorize Xcel to implement interim rates for service rendered on and after December 31, 2020 (sixty days after Minnesota Power's November 1, 2019 filing date), and
14. Authorize Xcel to waive its right under the interim rate statute to put interim rates into effect on December 31, 2019 and authorize Minnesota Power to implement interim rates for service rendered on and after January 1, 2020.
15. Authorize Xcel Power to implement interim rates for service rendered on and after a different date (for example, January 7, 2020), should the Commission find any filing completeness/acceptance issues exist which allows such modification.

Interim Rate Increase (Financial)

16. Approve an annual interim rate revenue deficiency of approximately \$121.95 million for 2020.
17. Approve an annual interim rate revenue deficiency of approximately \$113.5 million for 2020.
18. Approve an incremental annual interim rate revenue deficiency of \$143.98 million for 2021.
19. Do not approve an incremental annual interim rate revenue deficiency of \$143.98 million for 2021 and allow Xcel to resubmit its request, with updated financial information, at least 90 days before the proposed effective date of any increase above the initially approved interim rates.

Interim Rates (Capital Structure & Cost of Capital)

20. Approve Xcel's proposed interim cost of capital for setting interim rates.
21. Approve a different interim cost of capital for setting interim rates.

Interim Rates (Rate Design)

22. Approve Xcel's request to collect the interim rate increase as a uniform percentage interim rate adjustment to the base rate portion of customer bills. And to display

the interim rate increase on customer bills using a single, line-item interim rate adjustment.

Revised Revenue Requirement Calculation

23. If decision alternative #4 is not adopted, order Xcel to file revised financial schedules that reflect the use of the correct ROR and the related revenue deficiency reduction within 5 business days of the agenda meeting date.
24. Take no action.

Administrative & Compliance Issues

25. In the Notice and Order for Hearing, require the following:
 - a. This Order will be served on the Company, which shall mail copies of the Order to all municipalities, counties, and local governing bodies in its Minnesota service area.
 - b. Public Hearings shall be held in this matter at locations within the service area of the Company.
 - c. The Company shall give the following notices of the evidentiary and public hearings:
 - i. Individual written notice to each customer, which may be in the form of a bill insert, and shall be served at least ten days before the first day of hearings.
 - iii. Written notice to the governing bodies of all municipalities, counties, and local governing bodies in the area affected and to all parties in the Company's last two rate cases. These notices shall be mailed at least ten days before the first day of hearings.
 - iii. Display advertisements in legal newspapers of affected counties and other newspapers of general circulation within the Company's Minnesota service area. These advertisements shall appear at least ten days before the first day of hearings. They shall include the heading RATE INCREASE NOTICE, which shall appear in bold face type no smaller than 30 points.
 - iv. The Company shall submit proposed notices for Commission approval prior to publication or service.
26. In the Order Setting Interim Rate require the following:
 - a. Order the Company to file with the Commission and the Department of Commerce-Division of Energy Resources interim rate tariff sheets and supporting documentation reflecting the decisions herein. The Company's filing should also include the notice to customers, approved by the Executive Secretary, regarding the rate change under the interim rate schedule.
 - b. Order the Company to keep such records of sales and collections under interim rates as would be necessary to compute a potential refund. Any refund should be made

- within 120 days of the effective date of the Commission's final order in a manner approved by the Commission.
- c. Order the Company to include with each customer's first bill under the interim rate schedule a notice of the rate change, approved by the Executive Secretary. Upon completion of this task, the Company shall certify this fact to the Commission.
 - d. Require Xcel to maintain records of CIP costs and collection through the interim period so that it can be ascertained that recoveries dedicated to CIP are properly recorded as CIP.

Approval of Notices and Customer Bill Inserts

27. Delegate authority to approve notices, bill inserts, and bill format to the Commission's Executive Secretary for the duration of this proceeding.
28. Do not delegate authority to the Commission's Executive Secretary.

XI. Concluding Comment & Recommendation

If the Commission accepts this filing as substantially complete, the Commission should also suspend the proposed final rates, set this matter for contested case hearing, and request the ALJ's report and recommendation within a sufficient amount of time for the Commission to issue its order before the statutory deadline.

With respect to interim rates financial issues, the Commission will need to decide whether to approve the amount of the interim rate increase requested by Xcel.

With respect to interim rate design issues, staff recommends the Commission approve Xcel's proposal to apportion responsibility for the interim rate increase equally across all classes.

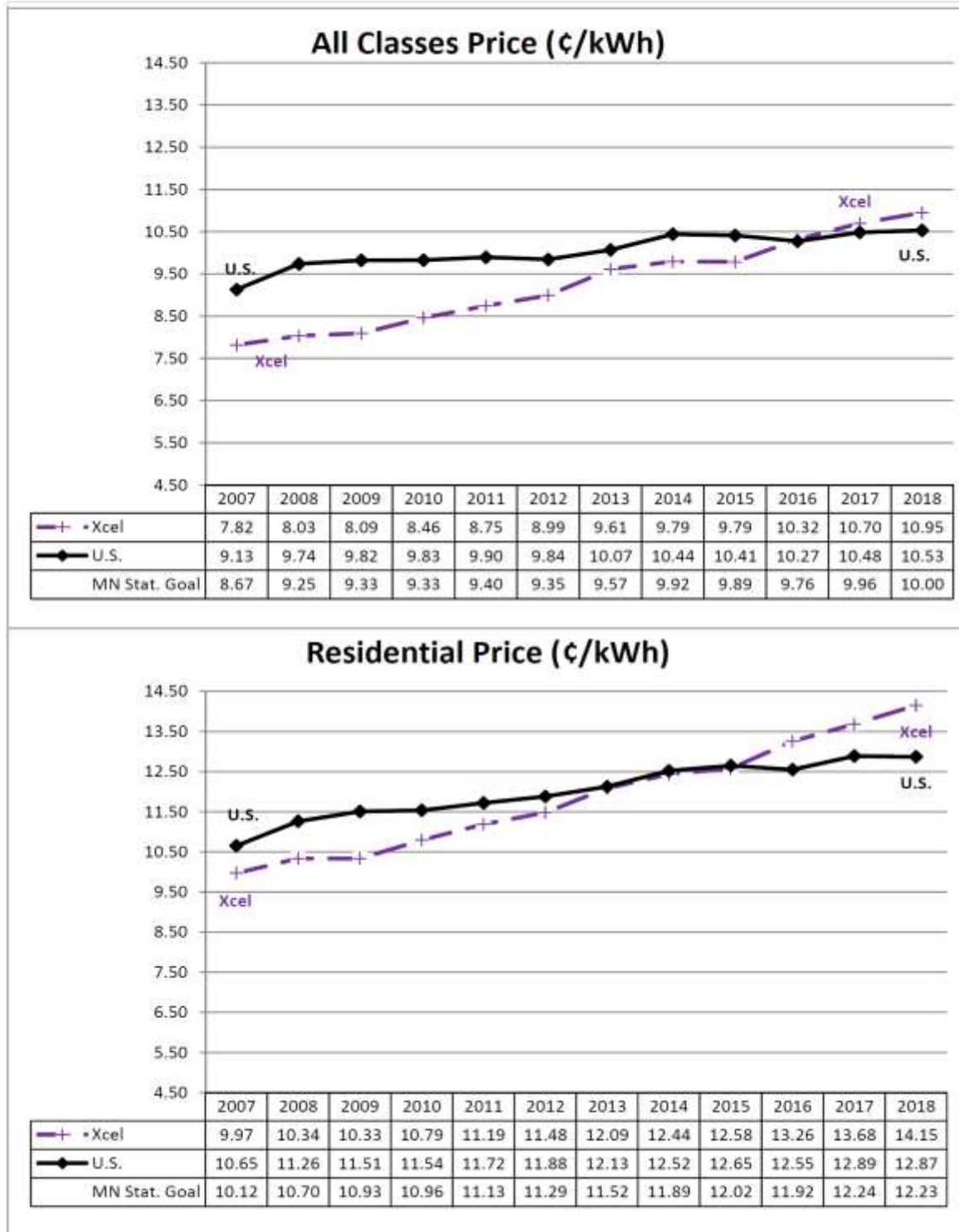
Staff recommends all of the administrative and compliance items listed under alternative 25 and 26. Staff also recommends the Commission delegate to the Commission's Executive Secretary authority to approve proposed notices and customer bill inserts for the duration of this proceeding, alternative 27.

The public hearing schedule does not require Commission action at this time but if the Commission would like to provide guidance on this, Staff will relay that information to the Administrative Law Judge.

Attachment A

Xcel Energy Minnesota Jurisdiction Compared to U.S. Average

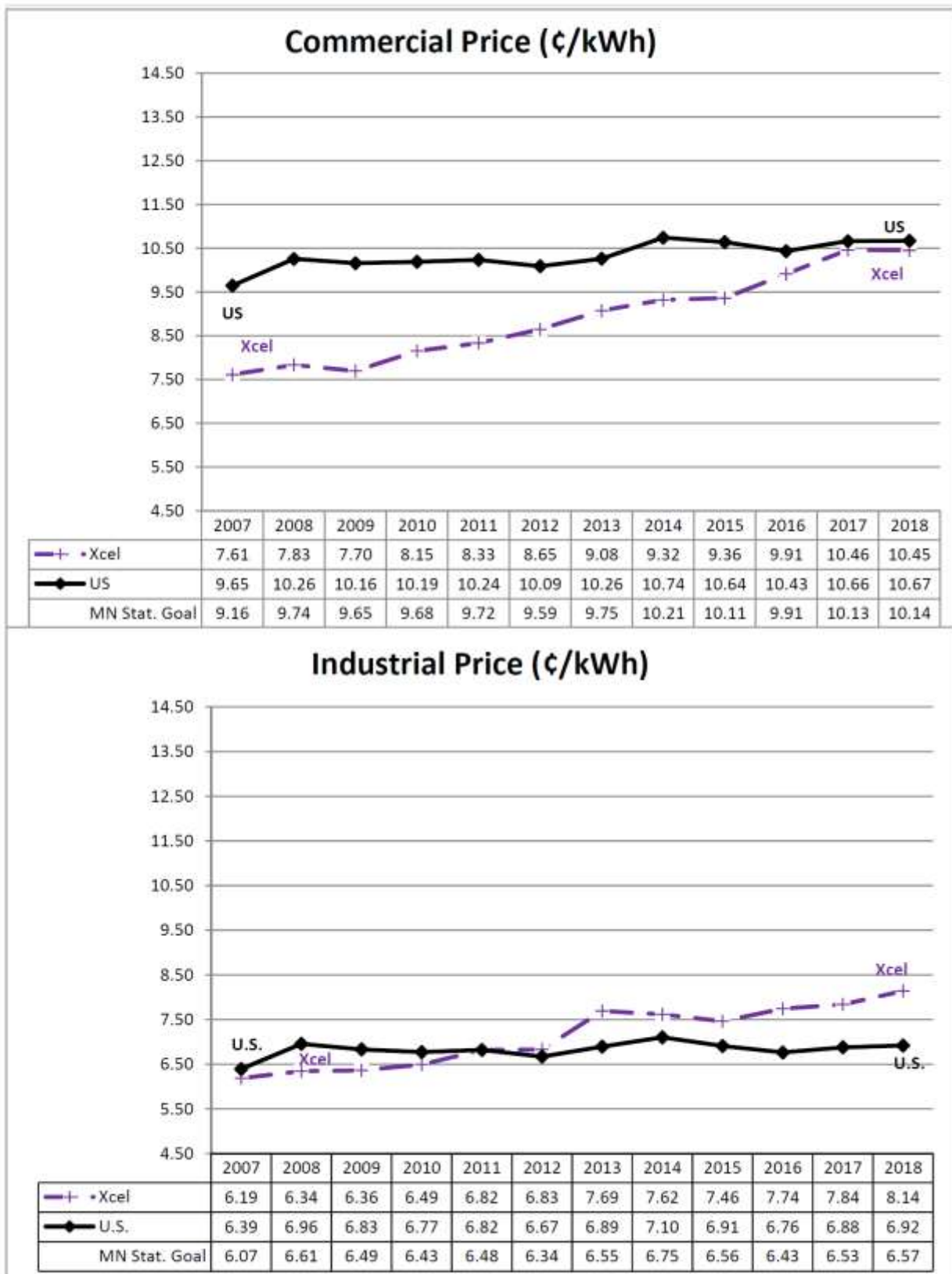
Attachment A, p. 1 of 4



Sources: U.S. average prices are from EIA, utility company's prices are from its Rule 7610 Annual Filings

Xcel Energy Minnesota Jurisdiction Compared to U.S. Average

Attachment A, P. 2 of 4

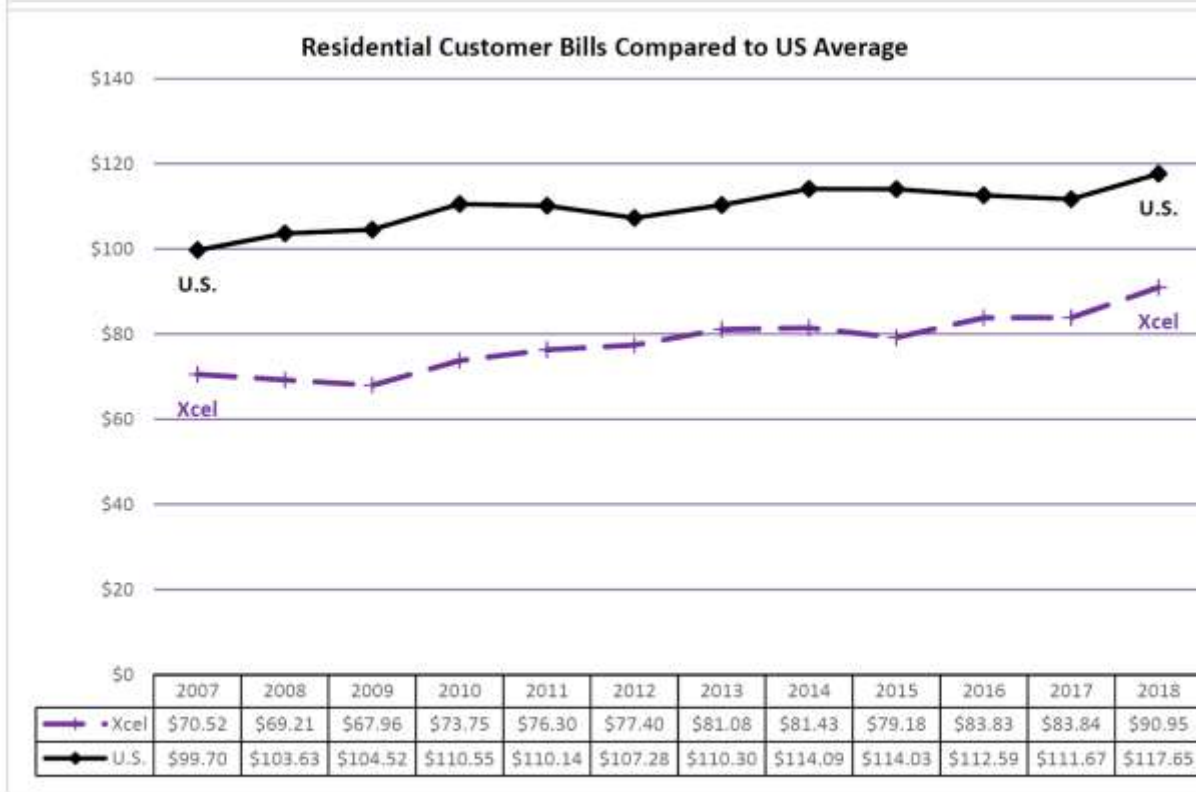
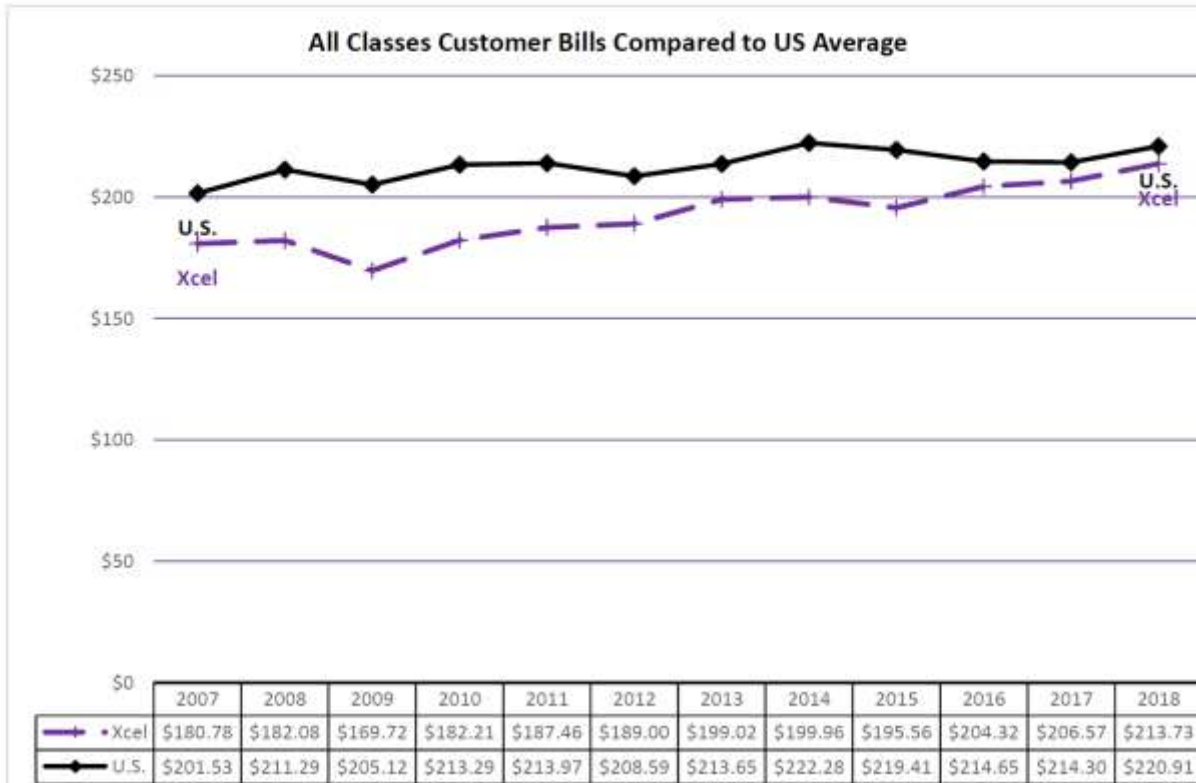


Sources: U.S. average for all utilities is from EIA, MN IOU's from Rule 7610 Annual Filings ('yy-11)



Xcel Energy Minnesota Jurisdiction Compared to U.S. Average

Attachment A, p. 3 of 4

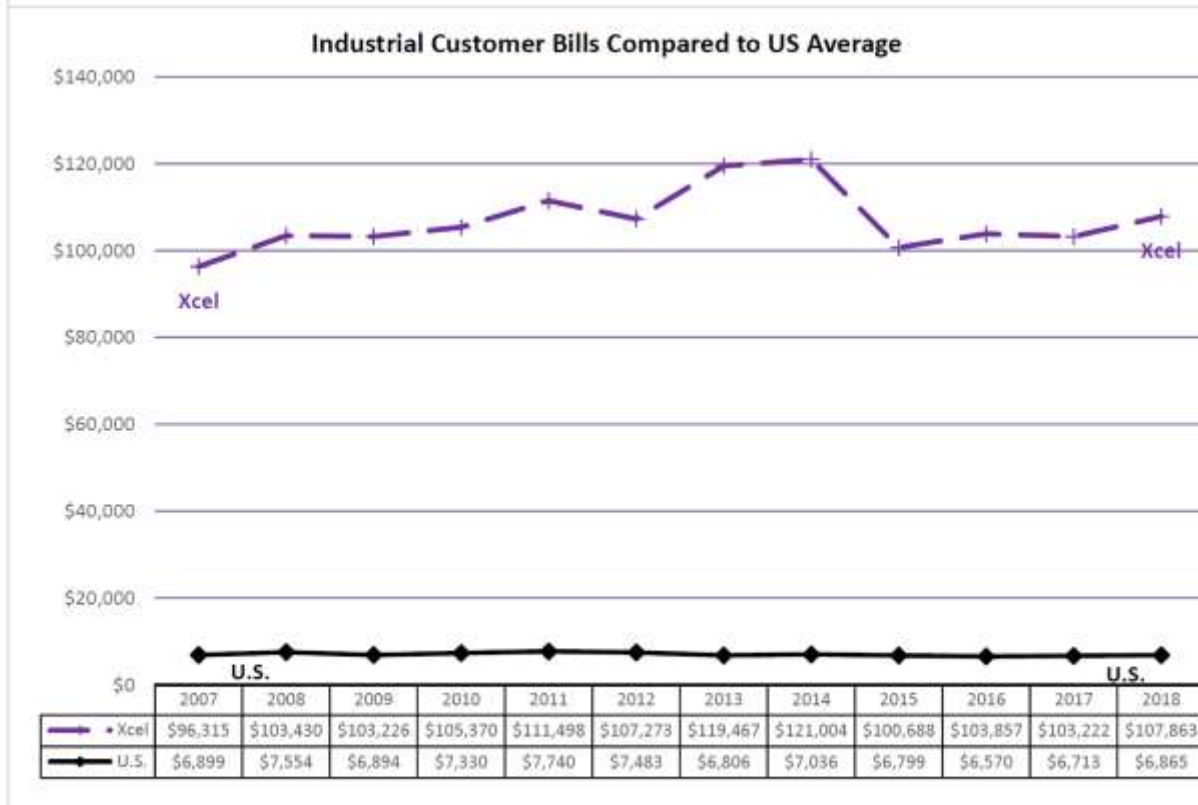
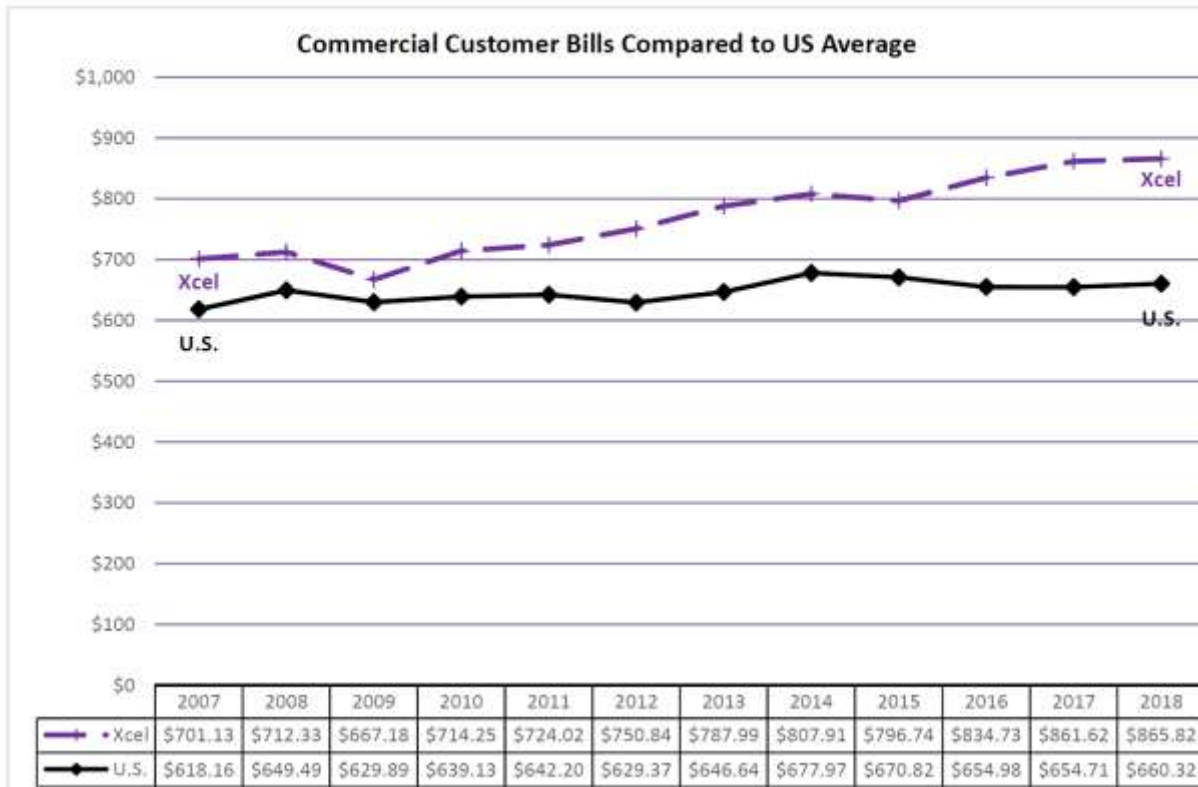


Sources: U.S. average for all utilities is from EIA, MN IOU's from Rule 7610 Annual Filings ('yy-11)



Xcel Energy Minnesota Jurisdiction Compared to U.S. Average

Attachment A, p. 4 of 4



Sources: U.S. average for all utilities is from EIA, MN IOU's from Rule 7610 Annual Filings ('yy-11)