

April 2, 2018

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

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**  
Docket No. G002/M-18-184

Dear Mr. Wolf:

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

Petition and Compliance Filing of Northern States Power Company, d/b/a Xcel Energy, for Approval of a Modification to the Natural Gas State Energy Policy (SEP) Tariff Rate, 2018 SEP Adjustment Factor, and 2017 SEP Compliance Filing.

The Petition was filed on March 1, 2018 by:

Lisa R. Peterson  
Manager, Regulatory Analysis  
Xcel Energy Service, Inc.  
414 Nicollet Mall – 7<sup>th</sup> Floor  
Minneapolis, Minnesota 55401

The Department recommends that the Commission **deny Xcel Energy's proposed SEP adjustment factor**. The Department is available to answer any questions the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ MICHAEL N. ZAJICEK  
Rates Analyst

MNZ/ja  
Attachment



Before the Minnesota Public Utilities Commission

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Comments of the Minnesota Department of Commerce  
Division of Energy Resources

Docket No. G002/M-18-184

**I. BACKGROUND**

In its April 6, 2004 *Order Approving State Policy Rate Rider, as Modified* in Docket No. E,G002/M-03-1544 (03-1544 Order), the Minnesota Public Utilities Commission (Commission) approved Northern States Power Company, d/b/a Xcel Energy's (Xcel Gas, Xcel Energy, or the Company), State Energy Policy Rider (SEP Rider). The Commission also directed Xcel Energy to submit an annual filing by March 1 of each year detailing the following information:

- a. electric-related Reliability Administrator (RA) and State building guidelines (SBG) expenses, Xcel Energy-Prairie Island settlement expenses, and costs associated with the independent study of intermittent resources;
- b. revenues obtained from the approved electric SEP Rider adjustment;
- c. proposed revised electric SEP Rider rate, together with a listing and description of all assumptions used to calculate the proposed revised electric SEP Rider rate;
- d. natural gas-related RA and SBG expenses;
- e. revenues obtained from the approved gas SEP Rider rate; and
- f. proposed revised gas SEP Rider rate, together with a listing and description of all assumptions used to calculate the proposed revised gas SEP Rider rate.

Since its 03-1544 Order, the Commission has issued determinations concerning the Company's SEP Rider in twelve separate proceedings.<sup>1</sup>

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<sup>1</sup> The specific proceedings are:

- Docket No. E002/M-05-359;
- Docket No. E002/M-06-364;
- Docket No. E,G002/M-07-283;
- Docket No. E,G002/M-08-261;
- Docket No. E,G002/M-09-201;
- Docket No. E,G002/M-10-210;
- Docket No. E,G002/M-11-175;
- Docket No. E,G002/M-12-185;
- Docket No. E,G002/M-13-161;
- Docket No. E002/M-13-959;
- Docket No. E,G002/M-14-185;

- In Docket No. E,G002/M-08-261, under then-new legislation reflected in Minn. Stat. 216B.1637, Xcel requested recovery of costs associated with the replacement of natural gas cast iron pipe through the SEP rate factor. The Commission's November 25, 2008 Order approved Xcel's request.
- The Commission's June 3, 2013 Order, in Docket No. E,G002/M-13-161, discontinued the cast iron replacement project reporting requirement as construction was completed.
- With the Commission's December 11, 2013 Order in Docket No. E002/M-13-959, the electric SEP Rider charge was discontinued, effective January 1, 2014, in conjunction with the transfer of cost recovery into electric base rates.<sup>2</sup>

Most recently, the Commission's August 24, 2017 Order in Docket No. G002/M-17-174 (17-174 Docket) determined the following:

1. Xcel Gas may continue to recover approximately \$1.83 million of costs through its State Energy Policy (SEP) rider until all costs are recovered or the Company files a general rate case, with the understanding that no new costs will be added or recovered through the SEP Rider.
2. Xcel Gas may include the assessment costs for [the Minnesota Department of Commerce's] Department Regional and National Duties in the SEP rider.
3. Xcel Gas shall not prorate its accumulated deferred income taxes in the SEP rider.
4. The effective date of the SEP rider shall not be before July 1, 2018.
5. The Commission approves the capital structure authorized in Xcel Electric's 2013 electric rate case for use in this docket along with the 9.04 percent Return on Equity (ROE) the Department recommended in Xcel's Gas Utility Infrastructure Cost (GUIC) in Docket No. G-002/M-16-891. A true up to align the ROE to the Commission's final decision in the GUIC docket shall be made at the next SEP filing.

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- Docket No. G002/M-15-194;
  - Docket No. G002/M-16-206; and
  - Docket No. G002/M-17-174.

<sup>2</sup> Docket No. E002/GR-13-868.

6. Xcel Gas shall submit an annual compliance filing by each March 1 containing the actual and forecasted information needed to determine any true-up amount to be recovered from or returned to ratepayers as a result of the operation of the SEP rider. Xcel shall submit a miscellaneous filing to establish new SEP rider rates for the subsequent fiscal year, incorporating amounts anticipated to be incurred and including any true-up amounts for the operation of the SEP rider during the current year.
7. Xcel Gas shall provide a comparison between actual and budgeted monthly costs in its future SEP rider filings, including a discussion of reasons for deviations from budgeted amounts (both higher and lower).
8. Xcel Gas shall revise labeling and provide correct descriptions in its SEP rider petition in future years to clarify exactly which costs are included and not included in its proposed SEP rate.
9. Xcel Gas shall recalculate the 2017 SEP rider revenue requirements and factor, to incorporate all of the Commission's decisions herein and shall submit revised schedules and factors reflecting these modifications, highlighting the values that differ from the initial filings' schedules.
10. Xcel Gas shall include the most recent billing message language approved by the Commission, along with any proposed modifications, in future SEP Rider petitions.

Xcel did not submit the March 1 compliance filing required by Order Point 6 in the 17-174 Docket; however, the instant Petition is labeled "Petition and Compliance Filing." Thus, Xcel filed the compliance required in 17-174 in the instant docket.

The Commission's February 8, 2018 *Order Approving Rider with Modifications* in Docket No. G002/M-16-891 confirmed the 9.04% ROE discussed in ordering paragraph 5 above.

## **II. SUMMARY OF FILING**

On March 1, 2018, Xcel Energy filed its *Petition for Approval of a Modification to the Natural Gas SEP Tariff Rate, 2018 SEP Adjustment Factor, and 2017 SEP Compliance Filing* (Petition) in the present docket to revise the Company's natural gas SEP Rider rates, with a proposed

effective date of July 1, 2018. The Company's proposal would raise the natural gas SEP Rider rate from the 2016 rate of \$0.001368 per therm, which was approved in Docket No. G002/M-16-206, to \$0.001960 per therm.

Implicit in Xcel's proposal is the Company's effective request for reconsideration of the Commission's determination in Docket No. G002/M-17-174 (Docket 17-174) to set the Company's SEP rate for July 1, 2018. Instead of implementing the rate approved in Docket 17-174, the Company stated at page 7 of its petition that "If the Commission approves our proposed rate of \$0.001960 for the 2018-2019 SEP Period, we would not implement a separate rate for the 2017-2018 SEP Period." The Department discusses this issue further below.

The Company identified two types of expenses currently included in the SEP Rider for recovery:

1. Greenhouse Gas Infrastructure (GHGI) Costs (*i.e.*, Cast Iron Replacement Project); and
2. Assessment for Department Regional and National Duties (ADRND).

Xcel's petition summarized the forecasted revenue requirement associated with each of these costs, along with the tracker true-up balance and the factor calculation.<sup>3</sup> An excerpt from the Company's petition, shown in Table 1 below, provides the revenue requirement by type of expense:

**Table 1: Gas SEP Costs and Rate Factor**

	<b>2018 Forecast</b>
(GHGI) Cast Iron (net) <sup>4</sup>	\$1,384,053
ADRND	\$31,645
Tracker Carryover	\$351,267
<i>Total Revenue Requirement</i>	<i>\$1,766,965</i>
Forecasted Therm Sales: (July 1, 2017 – June 30, 2018)	901,480,683
<i>Proposed SEP Factor (\$/therm)</i>	<i>\$0.001960</i>

<sup>3</sup> See Petition, Table 2, page 7.

<sup>4</sup> \$1,384,053= \$1,456,363 - \$72,310 (O&M credit).

Xcel Energy proposed to continue to show the natural gas SEP Rider rate in a separate line item on customer bills entitled "Resource Adjustment." In addition, as discussed in Section II.C.6 below, Xcel Energy proposed to notify its customers of the updated Resource Adjustment with a message on customer bills.

## **II. DEPARTMENT ANALYSIS**

### **A. *COMPLIANCE WITH THE IMPLEMENTATION PROCESS APPROVED IN DOCKET NO. E,G002/M-03-1544***

According to the implementation process approved by the Commission in the 03-1544 Order, Xcel Energy is to submit a compliance filing by each March 1 containing the actual and forecasted information needed to determine any true-up amount to be recovered from or returned to ratepayers as a result of the operation of the SEP Rider. The Company is also required to submit a miscellaneous filing to establish new electric and gas SEP Rider rates for the subsequent fiscal year, incorporating amounts anticipated to be incurred and including any true-up amounts from the operation of the SEP Rider during the current year. The Department reviewed the Petition and concludes that Xcel Energy submitted most of the information required by the implementation process approved in the 2003 proceeding. However, the Department recommends that the Company provide in its reply comments actual sales for each month, along with sufficient detail to replicate the revenue calculations in Attachments B and C.

### **B. *COMPLIANCE WITH THE COMMISSION'S ORDER IN DOCKET NO. E,G002/M-17-174***

#### **1. *Comparison between Actual and Budgeted Monthly Costs***

Xcel Energy's Petition included a comparison between actual and budgeted monthly costs. The Company stated that actual costs for the past twelve months were \$2,314 lower than forecasted and included a monthly breakout of these costs in the initial filing. The Department reviewed this data and concludes that Xcel Energy complied with this information requirement from the Commission's August 24, 2017 Order.

The Department notes, however, that the Commission's August 24, 2017 Order in 17-174 also required that Xcel Gas not prorate accumulated deferred income taxes (ADIT) in the SEP rider and that the Company's 2017 SEP rider rate approved in that proceeding should go into effect no earlier than July 1, 2018. The Company's proposal also violates these two order points in that it is proposing a 2018-2019 SEP adjustment factor, including estimated costs, to be implemented July 1, 2018, rather than a 2017-2018 rider factor based on historical July 1, 2017 – June 30, 2018 costs. The Department discusses these issues further below.

## *2. ADIT Proration: Background*

Given the focus on ADIT, an explanation of ADIT may be helpful. Public utilities are allowed to charge ratepayers for income tax costs, as operating expenses. The level of income taxes included in rates reflects uniform depreciation (the same amount of depreciation in each year of the life of the facility) in the test year, to spread the depreciation costs of facilities equitably over the lives of utility assets.

Congress, through the Internal Revenue Service (IRS), allows utilities to use accelerated depreciation for income tax purposes. Since higher depreciation results in lower income taxes, the utility pays lower income taxes early in the life of an asset, and correspondingly higher income taxes during the later years of the asset. Over the life of the asset, the same amount of income taxes result from using either accelerated or straight-line depreciation. However, given that utilities use uniform depreciation for ratemaking purposes, utilities collect essentially the same levelized amount of income taxes from ratepayers over the life of the asset.

As a result of accelerated depreciation used for tax purposes, ratepayers pay rates reflecting income taxes that are higher than the utility actually incurs in the early years of a utility asset's life and lower taxes in the later years. Because ratepayers essentially "prepay" the utility's income taxes, such prepayments must be offset through a credit in utility rates. That ratepayer credit happens through a reduction in rate base (which is the value of property on which a utility is allowed to earn a rate of return). Specifically, the rate base account, ADIT, adds up (accumulates) over time the difference between income taxes that utilities incur (pay to taxing authorities) compared to the amounts charged to ratepayers. Because it reduces the rate base by the total prepayment amount, ADIT provides the offset to rates.

Previously, the IRS interpreted this prepayment of income taxes simply as a timing difference: income tax prepayments by ratepayers in one year would simply be returned to ratepayers (reversed) in subsequent years. However, in the past several years, the IRS began interpreting its rules such that ratepayers would not be fully credited for income tax prepayments through the offset provided by ADIT, by prorating (reducing) ADIT if rates are implemented prior to the end of the test period used to set rates.

For example, if rates are based on a test period of July 2017 to June 2018, and if rates were implemented May 1, 2018, the IRS would require proration (reduction) of ADIT for May and June of 2018. As a result, ratepayers would not receive the full credit for income tax prepayments for those two months.

Nonetheless, the IRS has been clear that, if rates are implemented subsequent to the end of the test year used to set rates, no proration is needed, and ratepayers thus receive full credit for their prepayment of the utility's income taxes.

### *3. ADIT Proration: Xcel's Proposal*

Xcel Gas acknowledged that the Commission's August 24, 2017 Order requires that only historical costs (i.e. costs for the period prior to implementation of rates) be used to calculate the SEP adjustment factor. However, Xcel noted two recent Private Letter Rulings (PLR) from the IRS regarding how to appropriately treat ADIT going forward without violating IRS normalization rules. In particular, the Company noted that PLR #201717008 addresses rate riders and true-ups. According to the Company, PLR #201717008 states that whenever a given rate is set, the months prior to that date can be treated as actuals, without proration, regardless of whether the data was based on actual or estimated figures. The Company stated that this PLR allows Xcel Gas to exclude proration for the 2017-2018 SEP period, even for months that are forecasted (January 1, 2018 – June 30, 2018).

The Department agrees that the IRS does not require proration solely due to use of estimated rather than actual data in setting rates; instead, the IRS focuses on the date of rate implementation. For months prior to implementation of rates, no proration is required – whether actual or forecasted data is used to set rates. However, if there are any months remaining in the "test year" (on which rates are set) after rate implementation, the IRS requires proration for those future months. It was for this reason that the Department recommended, and the Commission agreed, that rates in 17-174 should not be implemented until July 1, 2018, after the test period was over.

Despite the Commission's determination in 17-174, the Company's proposal in 18-184 would implement a different rate on July 1, 2018, but for the 2018-2019 test year rather than the 2017-2018 test year, and as such would continue to use proration in calculating the 2018-2019 SEP period revenue requirement. According to Xcel Gas, the main new piece of information from PLR #201717008 is that forecasted ADIT with proration is not allowed to be trued up to actuals with no proration as such true-up would "reverse the economic effect of the proration." The Company then stated that, "Consequently, the true-up of the 2018-2019 SEP Period ADIT would be the difference between the forecast ADIT un-prorated and actuals."<sup>5</sup> Xcel believes that their new method would allow for the Company to comply with IRS normalization rules while reducing regulatory lag.

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<sup>5</sup> While Xcel's proposal appears to contemplate no ADIT proration, even for forecasted months, Chart 1 on page 10 of the Petition indicates that the Company would include proration when calculating the revenue requirements for the subsequent SEP period.



The Company has not shown its proposal to be reasonable, for several reasons. First, since the Commission already set the rate for July 1, 2018 in Docket 17-174, it is not reasonable for Xcel to propose a rate based on a different test period to be effective on the same date. The Company's proposal appears to be an inappropriate request for reconsideration of the Commission's decision in the 17-174 docket. In any case, it is not reasonable for the Company to propose to implement a rate in the instant docket to be effective on the same date and for the same rider as the Commission already determined in a prior docket. However, as discussed below, new information provided by the Company appear to warrant use of a lower factor than the Commission originally approved in that case.

Second, Xcel's proposal would credit back to ratepayers a true-up equal only to the "difference between the forecast ADIT un-prorated and actuals." In other words, Xcel would not give back to ratepayers the income taxes they prepaid on the original prorated ADIT, and would not credit ratepayers for the difference between prorated and unprorated ADIT. The Company and the IRS have been adamant that no true up of prorated ADIT can occur,<sup>6</sup> except to the extent that a utility over-forecasted amounts. Thus, ratepayers would be unduly harmed under Xcel's proposal.

Finally, Xcel has not demonstrated how its proposal would better resolve the issue of prorated ADIT any more reasonably than it has already been resolved by the Commission. To avoid causing undue harm to ratepayers, the Commission reasonably determined in its August 24, 2017 Order<sup>7</sup> that rider recovery is limited to historical costs, which as noted above the IRS determined as costs pertaining to months prior to when the rate is implemented, whether such costs are actual or forecasted. In other words, the Commission allowed Xcel to have a rider, but limited implementation to no sooner than the first day after the test period. The Commission's reasonable approach resolved the issue of prorated ADIT for the purposes of Xcel Gas' SEP Rider. The Company did not request reconsideration of the Commission's Order.

Thus, the Department concludes that delaying the implementation of the SEP adjustment factor until actual data is available, as the Commission directed in its August 24, 2017 Order, is a clear and reasonable resolution of the issue. Given that rider recovery is an extraordinary cost recovery mechanism enabling recovery to occur outside of a rate case, and given the need to avoid undue harm to ratepayers, who would not receive full credit for the income taxes they

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<sup>6</sup> For example, the PLR cited by Xcel states that "The Proration Requirement continues to apply to the originally projected changes." <https://www.irs.gov/pub/irs-wd/201717008.pdf> at page 14, ordering paragraph 4.

<sup>7</sup> See also the Commission's February 8, 2018 Order in Docket No. G002/M-16-891 regarding Xcel Gas' Gas Utility Infrastructure Cost Rider.

prepay to the utility,<sup>8</sup> the approach the Commission uses in riders continues to be reasonable and balanced.

As a result, the Department recommends that the Commission deny Xcel's proposal to implement a rate of \$0.001960 per therm on July 1, 2018.

*4. Update to Factor in 17-174*

As mentioned above, Xcel provided updated information that appears to be more appropriate in setting the SEP factor in Docket 17-174. The following table compares the figures for 2017 that Xcel provided in Dockets 17-174 and 18-184.

**Xcel's 2017 Figures (2018 for therms)**

<b>Gas</b>	<b>18-184</b>	<b>17-174</b>	<b>Difference</b>
RA/SBG	\$27,030	\$10,565	\$16,465
Cast Iron	\$1,567,571	\$1,754,251	(\$186,680)
Cast Iron O&M Credit	(\$72,310)	(\$72,310)	\$0
Carryover	\$8,483	\$139,726	(\$131,243)
Revenue Requirement	\$1,530,774	\$1,832,232	(\$301,458)
Xcel's Estimated Therms	901,480,683	871,444,973	30,035,710
2016 Actual Therms *	971,043,548	971,043,548	0
Factor	<b>\$0.001576</b>	\$0.001887	\$(0.000310)

Xcel's estimate costs for 2017 were \$301,458 lower in 18-184 than in 17-174. The Department recommends that the Commission use the updated, lower 2017 revenue requirements to set the factor to be effective July 1, 2018.

In addition, Xcel's estimated annual sales varied materially in these two filings, as indicated in the table above. However, the Company provided its most recent actual sales data in Docket No. E,G999/PR-17-4, at 971,043,548 therms. These actual therm sales were from 2016, which was warmer than normal (and hence would be expected to have lower-than-normal sales). Since these are the most recent actual sales available, the Department recommends use of this data to set the factor to be effective July 1, 2018.

The resulting factor, based on these two updates, is \$0.001576 per therm. Thus, the Department recommends that the Commission update the factor set in 17-174 for test year July 1, 2017 through June 30, 2018, to be effective July 1, 2018, at \$0.001576 per therm.

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<sup>8</sup> For a more thorough discussion of accumulated deferred income taxes, please see the Department's March 30, 2018 comments on Docket E,G999/CI-17-895.

### *5. Timing of Compliance and Miscellaneous Filings*

As suggested above, in Docket 17-174 Xcel requested approval of a 2017 adjustment factor based on revenue requirements calculated through June 30, 2018. Xcel requested that the 2017 adjustment factor be in place July 1, 2017 through June 30, 2018, but if approved after June 30, 2017, that the factor be adjusted to recover the up-to-June 30, 2018 revenue requirements over the remaining months in the July 1, 2017 – June 30, 2018 fiscal year. In other words, up to last year, Xcel's SEP adjustment factors had been set to recover forecasted (future) costs.

The Commission's Order in Docket 17-174 changed this practice, in light of the IRS concerns noted above and the harm that would be caused to ratepayers. Instead, implementation of the 2017 SEP factor (and recovery of 2017-2018 costs) is not to occur sooner than July 1, 2018. Likewise, costs for July 1, 2018-June 30, 2019 should not be implemented prior to July 1, 2019. Moreover, in light of the variations in Xcel's costs and sales, the Department recommends that the Commission determine the factor to be effective July 1, 2019 based on updated information to be filed next year.

As noted above, the Commission required Xcel to submit an annual March 1 compliance filing "containing the actual and forecasted information needed to determine any true-up amount to be recovered from or returned to ratepayers as a result of the operation of the SEP rider." The Department concludes that Xcel's Petition includes most of the required information, showing that the estimated SEP tracker balance as of June 30, 2018 is estimated to be \$8,483. However, the Department recommends that the Company file actual sales for this period to allow for verification of the Company's calculations.

In addition, Xcel was directed to file "a miscellaneous filing to establish new SEP rider rates for the subsequent fiscal year [July 1, 2018 – June 30, 2019] incorporating amounts anticipated to be incurred and including any true-up amounts for the operation of the SEP rider during the current year [July 1, 2017 – June 30, 2018]." As discussed above, Xcel's Petition is not compliant with the Commission's Order. As such the Department recommends that the Commission deny Xcel's proposed 2018 SEP rate factor, and instead accept the Petition as a compliance filing, and continue to require the Company to file a proposed 2017-2018 SEP rate factor, once actual data through June 30, 2018 is available, for implementation on or after July 1, 2018.

Finally, based on the updated information as discussed above, the Department recommends that the Commission revise the factor to be effective on July 1, 2018 from \$0.002103 per therm to \$0.001576 per therm.

Nonetheless, should the Commission decide to change the directives contained in its Order in Docket 17-174, the Department provides its analysis of Xcel's proposed SEP adjustment factor below.

*D. REASONABLENESS OF THE PROPOSED NATURAL GAS SEP RIDER RATE*

*1. Energy-Related Mandates*

Xcel Energy proposed to include costs associated with the legislative mandate for the ADRND.<sup>9</sup> For the purposes of this Petition Xcel assumed that the legislature will extend the ADRND during this session. In the event that the legislature does not extend the ADRND, the Company proposed to remove the costs from the 2018-2019 SEP tracker before the Company implements the new rate. The Department concludes that Xcel's proposal regarding the ADRND is reasonable.

*2. Cast Iron Replacement Project*

In its November 25, 2008 *Order Accepting and Modifying Petition Regarding State Energy Policy Rider* in Docket No. E,G002/M-08-261 (November 25 Order), the Commission approved recovery of costs associated with Xcel Energy's replacement of the remaining cast iron gas pipe on the Company's system through the SEP Rider. Total revenue requirements for the Cast Iron Replacement Project are shown in Attachment D2 to Xcel Energy's March 1, 2018 Petition. As required by the November 25 Order, Xcel Energy included a corresponding operation and maintenance (O&M) credit for savings associated with the Cast Iron Replacement Project of \$72,310 for the 2018 SEP period. As required by the Commission's September 23, 2010 Order in Xcel Energy's 2010 SEP Rider filing,<sup>10</sup> the Company's Attachment D3 details Xcel Energy's O&M credit, which reflects the outcome of the Company's last natural gas rate case (Docket No. G002/GR-09-1153).

The Department concludes that including the costs for the Cast Iron Replacement Project in the SEP tracker account as proposed by Xcel is reasonable.

*3. Carbon Offsets*

In Xcel Energy's 2008 SEP Rider proceeding, the Commission required that the Company:

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<sup>9</sup> Minnesota Statute § 216B.62, subd. 3b.

<sup>10</sup> Docket No. E,G002/M-10-210.

- Report, in all future SEP Rider filings, the sale of any carbon offset or credit for decreased greenhouse gas emissions associated with gas pipe replacement under the Project; and
- Credit the gas SEP tracker account with any proceeds received by the Company from the sale of each carbon offset or credit associated with the Project.

In its Petition, Xcel Energy stated that the Company has not sold any carbon offsets or credits for greenhouse gas emissions associated with natural gas cast iron pipe replacement under the SEP Rider to date; consequently, there are no carbon offsets and/or credits to report, or proceeds to credit to the SEP tracker account. As Xcel Energy noted in its previous SEP Rider filings, the Company began annual reporting to the U.S. Environmental Protection Agency (EPA) of greenhouse gas emissions for all types of natural gas pipe material in September 2012.<sup>11</sup> Attachment H of Xcel Energy's Petition contains the summary of their EPA report. The Department concludes that Xcel Energy's statements regarding carbon offsets and credits comply with the Commission's requirements on this issue as established in the Company's 2008 SEP Rider proceeding.

#### *4. Relationship to Rate Cases*

Attachment F to Xcel Energy's Petition is the Bridge Schedule, which shows that the Company did not include SEP revenues or expenses in its last natural gas rate case (Docket No. G002/GR-09-1153).

The Department confirmed Xcel Energy's assertion that the Company's proposed SEP rate factor includes only incremental costs not currently recovered elsewhere in rates.

#### *5. Rate Calculation*

Table 2 below summarizes Xcel Energy's calculation of its proposed natural gas SEP Rider rate.

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<sup>11</sup> 40 C.F.R. Part 98, Subparts A and W.

**Table 2: Proposed Natural Gas SEP Rider Rate**

	<b>Approved 2016</b>	<b>Forecast 2017<sup>12</sup></b>	<b>Proposed 2018</b>	<b>\$ Change (2016-2018)</b>	<b>% Change</b>
ADRND	\$31,557	\$27,030	\$31,645	\$88	0.31%
Cast Iron Pipe Costs	\$1,821,962	\$1,567,571	\$1,456,363	(\$365,599)	(20.07%)
Cast Iron O&M Credit <sup>13</sup>	(\$72,310)	(\$72,310)	(\$72,310)	\$0	0%
Tracker True-up	(\$466,208)	(\$8,483)	\$351,267	\$817,475	175.35%
<b>Revenue Requirement</b>	1,315,002	1,530,774	\$1,766,965	\$451,963	34.37%
Therm Sales Forecast	961,310,996	N/A	901,480,683	(59,830,313)	(-6.22%)
Factor per therm	\$0.001368	N/A	\$0.001960	\$0.000592	43.27%

As shown in Table 1, Xcel Energy proposed to increase its natural gas SEP Rider rate by 43.27 percent. The Department notes that the proposed 2018 carry over tracker balance (estimated as of June 30, 2019) reflects Xcel's assumption that SEP Rider costs will continue to be collected in the same time period as they are incurred, and since the 2017 SEP adjustment factor has not yet been implemented, Xcel expects the carryover balance to be more significant than is typically the case.

However, as discussed above, the Commission has determined that the SEP adjustment factor must be based on actual historical costs, and thus, Xcel Gas' proposed rate factor is inconsistent with the Commission's August 24, 2017 Order. Moreover, as discussed above, Xcel's therm sales appear to be too low, resulting in rates that are too high. The Department recommends setting rates effective July 1, 2018 based on actual 2016 sales.

## 6. Customer Notice

The Department notes that Xcel Energy proposed to include the following customer notice when the revised SEP rate takes effect:

We have updated the Resource Adjustment line item on your bill to reflect changes in the State Energy Policy (SEP) portion of the Resource Adjustment, which recovers the costs for cast iron pipe replacement and to support State energy efficiency and

<sup>12</sup> 2017 Forecast includes 6 months of actuals and 6 months of forecast.

<sup>13</sup> Xcel Energy notes in footnote 2 of Attachment D3 of its Petition that the O&M credit approved for 2013 will not change going forward since all replacement work has been completed.

conservation policy. The natural gas SEP portion of the Resource Adjustment increased to \$0.001960 per therm.

The Department recommends that the Commission approve Xcel's proposed customer notice, based on information from 2017, updated as discussed above to amount to \$0.001576 per therm for the SEP rate.

### **III. RECOMMENDATION**

The Department's review of the Company's Petition confirms that it fulfills the Commission's reporting requirements contained in the following Orders:

- *Order Approving State Energy Policy Rider, as Modified* in Docket No. E,G002/M-03-1544, dated April 6, 2004;
- *Order Approving Modification of the Natural As State Energy Policy Tariff Rate, E,G-002/M-14-185 and E,G-002/M-17-174; and*
- *Order Accepting and Modifying Petition Regarding State Energy Policy Rider* in Docket No. E,G002/M-08-261, dated November 25, 2008.

However, the Department recommends that Xcel provide actual monthly sales data for 2017, along with sufficient detail to replicate the revenue calculations in Attachments B and C.

In addition, the Department concludes that Xcel's Gas' proposed SEP adjustment factor is effectively an inappropriate request for reconsideration of the Commission's 17-174 Order and would violate the Commission's 17-174 Order if implemented.

Therefore, the Department recommends that the Commission deny Xcel's proposed 2018 SEP rate factor, and instead accept the Petition as a compliance filing, updated to reflect lower costs for 2017 and, as discussed above should be based on actual 2016 sales, resulting in a factor of \$0.001576 per therm for implementation on or after July 1, 2018.

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## **CERTIFICATE OF SERVICE**

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce**  
**Comments**

**Docket No. G002/M-18-184**

**Dated this 2<sup>nd</sup> day of April 2018**

**/s/Sharon Ferguson**



[illegible]

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