

Staff Briefing Papers

Meeting Date December 13, 2018 Agenda Item *2

Company Xcel Energy (Xcel or the Company)

Docket No. **E-002/M-18-628**

In the Matter of the Petition of Northern States Power Company for Approval of the 2018 Renewable Development Fund Annual Report, Tracker Account True-Up, and 2019 Rate Rider Factor

Issues Should the Commission approve Xcel's request for a 2019 RDF rate rider factor of \$0.001417 per kWh effective January 1, 2019?

Should the Commission approve Xcel's Renewable Development Fund (RDF) tracker account activity through August 31, 2018, including the amount to be transferred to the Renewable Development Account (RDA)?

Should the Commission require Xcel to submit additional compliance filings?

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Relevant Documents

Date

Xcel Petition	October 1, 2018
DOC comments	October 31, 2018
Xcel reply	November 9, 2018

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



Relevant Documents

Date

Docket No. E-002/M-17-712

Staff briefing papers, 2018 RDF rate rider

August 9, 2018

PUC Order approving rate rider

September 25, 2018

I. Statement of the issues

Should the Commission approve Xcel's request for a 2019 RDF rate rider factor of \$0.001417 per kWh effective January 1, 2019?

Should the Commission approve Xcel's Renewable Development Fund (RDF) tracker account activity through August 31, 2018, including the amount to be transferred to the Renewable Development Account (RDA)?

Should the Commission require Xcel to submit additional compliance filings?

II. Introduction

On October 1, 2018, Xcel filed its petition seeking approval of a new RDF rate rider factor. On October 31, 2018, the Department of Commerce (DOC) recommended approval of the petition. There is no dispute in this docket over the appropriate level of the RDF rate rider factor or the tracker account activity. Therefore, these briefing papers are intended to provide the Commission with specific decision options agreed to by the parties following the comment period, and to move the RDF/RDA process forward in a timely fashion.

III. Background

On September 25, 2018, the Commission issued its *Order Approving Rate Rider Factor and Requiring Compliance Filing*, in Docket No. E002/M-17-712. In this Order, the Commission: (1) approved a determination of the correct RDA transfer payment to the Minnesota Office of Management and Budget (MMB) and the treatment of Xcel's December 31, 2017 unencumbered cumulative RDF tracker balance, (2) approved Xcel's 2017 tracker account activity and the level of the 2018 RDF rate rider factor, (3) required Xcel to separately itemize RDF and RDA expenses in future filings, and (4) required Xcel to remove \$28,009 in administrative costs from the Company's RDF tracker balance for purposes of determining the 2018 rate rider factor.¹

In the current petition, the Company is requesting approval of a proposed rate rider factor (effective January 1, 2019) and RDF tracker account activity in 2018. Xcel seeks cost recovery for expenses incurred during the period January 2017 to August 2018 (actual data), and September 2018 to December 2019 (forecasted data). Each of Xcel's annual RDF rate rider requests include a true-up of the forecasted expenses from the prior year's request.

Xcel's next RDF rate rider recovery request will be filed on October 1, 2019. It will include a request for recovery of payments made to MMB in 2020, a report on tracker account activity in

¹ In a separate Order, issued October 15, 2018, in the same docket, the Commission directed Xcel to exercise its termination rights under the Crown Hydro grant contract (RDF grant contract AH-01). On October 22, 2018, Xcel filed a letter informing the Commission that in compliance with the October 15 Order, the Company issued a notice of grant contract termination with Crown Hydro.

2019, and a request for a true-up of 2018 tracker activity. It will also provide the Commission with the cumulative unencumbered RDF 2019 year-end tracker account balance.²

IV. Parties' comments

Xcel Energy (Xcel)

Xcel's petition requests approval of a 2019 RDF rate rider factor of \$0.001417 per kWh effective January 1, 2019. This level rider factor would increase the average residential customer's bill by about \$0.07 per month.³ Consistent with the Commission's most recent RDF Order, Xcel did not include any RDF administrative costs in the determination of the 2019 RDF rate factor.⁴ The proposed level of the factor will recover \$41,588,284 over the 12-month period January – December 2019 (assuming it is effective January 1, 2019).

Xcel's requested recovery of \$41,588,284 includes:

- 2019 RDF known and measurable expenses of \$5,760,881 (RDF grant project expenses)
- 2019 Renewable Development Account (RDA) expenses of \$32,500,000⁵
- 2018 under-recovery of expenses of \$3,327,404

Xcel used the "known and measurable" criteria in the calculation of the 2019 RDF rate rider factor.⁶ In its petition, the Company provided details and a full discussion of each of the three categories of expenditures for which it is requesting recovery:

- payments made to fulfill Minnesota legislative mandates
- payments made to RDF grant projects
- true-up expenses for costs under-recovered in the 2018 RDF rate rider

Consistent with the Commission's September 25, 2018 Order, Xcel separated costs into two categories: the legacy RDF, and the new RDA. It identified these costs as follows:

- *RDF recoverable costs.* Disbursements to RDF grantees for projects selected for grant awards through a competitive Request for Proposal (RFP) were approved by the Commission and therefore characterized as RDF costs. Xcel explained that the Commission had an active role in the review of the RFP, approval of awards, and

² The year-end balance will represent actual data through August 31, 2019, and forecasted data through December 31, 2019.

³ This calculation is based on average residential monthly consumption of 750 kWh.

⁴ See Order, issued September 25, 2018, in Docket No. E-002/M-17-712.

⁵ Note that, once the legislative mandates have been subtracted, the actual transfer payment to MMB is \$13,754,134.

⁶ The known and measurable criteria were approved by the Commission in the Company's 2010 RDF rate filing Order, issued March 17, 2011, in Docket No. E-002/M-10-1054.

approval of RDF grant contracts that determine how unencumbered funds are disbursed. These RDF grant contracts remain in effect and continue to be administered by the Company under various Commission orders with oversight from an independent and established RDF advisory group and the Commission.

- *RDA recoverable costs.* The Company categorized disbursements that are the result of legislative mandates (i.e. programs or appropriations created through specific statutory language) as RDA costs. The Company explained that it categorized legislative mandates as RDA costs because the Commission did not have a role in creating these appropriations and the Commission's role is generally limited to approval of the recovery of these costs from electric ratepayers.

Xcel explained that the proposed 2019 RDF rate rider factor recovers \$32,500,000 for six mandated legislative initiatives,⁷ as follows:

- \$617,989 for Renewable Energy Production Incentive (REPI) payments
- \$1,719,463 for the Minnesota Bonus Solar Rebate Program
- \$3,108,414 for the Solar*Rewards Program
- \$6,800,000 for the Laurentian Initiative
- \$6,500,000 for the City of Benson Initiative
- \$13,754,134 payment to MMB⁸

As noted, Xcel did not include administration costs related to the RDF or the RDA in its request for recovery in 2019. The Company explained that in 2017, the statutory basis for Xcel to manage the RDF was removed by legislation and administration of the RDA was assigned to MMB. When considering the prudence of the 2018 RDF rate rider factor, the Commission decided that 2017 legislative changes disallowed recovery of administrative costs.⁹ Therefore, the Company did not request recovery of any RDF or RDA administrative costs as part of its October 1, 2018 petition.

⁷ Further detail on each of these legislative initiatives is included in the Company's Petition, pages 9-14. The DOC noted that it does not agree with Xcel's characterization of these legislative mandates as RDA-recoverable costs but noted that this does not affect the actual transferred amounts.

⁸ Xcel explained that these are new unencumbered funds that are legislatively mandated and eligible to be recovered. The 2017 legislative changes to Minn. Stat. § 116C.779, subd. 1(b)-(d) require the Company to transfer to "the renewable development account" managed by MMB the annual obligation for the storage of dry casks located at the Prairie Island power plant and the Monticello nuclear power plant less the amount necessary to pay its obligations for legislative payments. In 2019, Xcel's obligation for the storage of dry casks located at Prairie Island and Monticello is \$32,500,000. If one were to subtract the amount of the 2019 legislative mandates from the Company's nuclear cask obligation, it equals the \$13,754,134 amount that the Company must transfer to the MMB in February 2019 pursuant to the 2017 legislative changes.

⁹ See Order, issued September 25, 2018, in 17-712, disallowing recovery of RDF/RDA administrative costs.

Department of Commerce (DOC)

The DOC recommended approval of Xcel's petition and provided one clarification (which did not affect its recommendation to approve the petition). The DOC also noted that Xcel had met all previous compliance requirements related to the RDF.¹⁰

After reviewing Xcel's 2017 actual RDF expenses, 2018 actual (January – August 2018) and forecast (September-December 2018) RDF expenses, as well as 2019 forecast expenses, the DOC concluded that Xcel's expense accounting was generally reasonable and should be approved.¹¹

The DOC reviewed Xcel's RDF tracker account activity (2018 RDF expenses and associated recovery) and found it to be reasonable. The DOC reported on the following activity:

- \$40,237,149 in 2018 total expenditures for both RDF and RDA (including the 2018 RDA transfer payment to MMB of \$8,817,885)
- \$39,800,765 in 2018 RDF/RDA expenditures allocated to the Minnesota Jurisdiction
- \$3,053,218 in 2017 final true-up (surplus)
- \$33,420,143 in 2018 RDF rider revenues

The DOC explained that the Company's forecasted total 2019 RDF expenditures are \$38,669,032 (including the 2019 RDA transfer payment to MMB of \$13,754,135).¹² After adding \$3,327,404 in under-recovered RDF expenditures at the end of 2018 (estimated) to the 2019 RDF expenditures allocated to the Minnesota Jurisdiction, the Company identified a total amount of \$41,588,284 to be recovered in 2019. This amount was divided by the 2019 sales forecast of 29,352,915,894 kWh to arrive at an RDF rate rider factor of \$0.001417 per kWh for 2019. This level of rider should result in a cumulative balance of \$0 in the tracker account at the end of 2019. The DOC concluded that Xcel's calculations were reasonable and should be approved.¹³

Administrative costs

The DOC also commented specifically on the requirements in the Commission's September 25, 2018 Order (in Docket No. 17-712), which required Xcel to remove \$28,009 (the Minnesota Jurisdictional portion of the proposed \$30,300) in administrative costs from the tracker balance. The DOC noted that Xcel responded by not including any administrative expenses for 2018 or 2019 in the tracker balance or in the calculation of the 2019 rate rider factor.

Separate itemization of RDF and RDA expenses

¹⁰ DOC comments, October 31, 2018, pp. 17-18.

¹¹ DOC comments, October 31, 2018, pp. 15-16.

¹² The forecasted 2019 RDF expenditures allocated to the Minnesota Jurisdiction are \$38,260,881.

¹³ DOC comments, October 31, 2018, p. 16.

The Commission's September 25, 2018 Order also directed Xcel to itemize RDF and RDA expenses separately in all future filings. The DOC concluded that Xcel had complied with this requirement by separately identifying the RDA payments to MMB in attachments to the filing.

For clarity of the record, however, the DOC noted that it disagreed with Xcel's characterization of payments to fulfill the Minnesota legislative mandates as RDA-recoverable costs. It noted that this mischaracterization, while confusing, does not alter the MMB transfer amounts.

The DOC explained that RDA expenses are limited to the annual RDA transfer payments to MMB, exclusive of the Minnesota legislative mandates. As the Commission's September 25, 2018 Order requires, the "Company must make annual payments into the RDA based on the number of dry casks containing spent fuel at each of the Company's two nuclear power plants, *minus the cost of legislative mandates.*"¹⁴

The DOC agreed with Xcel that certain payments, which are mandated by law, should be treated as "known and measurable" for cost recovery purposes.¹⁵

2018 year-end unencumbered cumulative RDF balance

Attachment 6 to the DOC comments provides an estimate of the unencumbered cumulative RDF balance in the tracker account as of December 31, 2018. This attachment shows the estimated balance to be \$27,742,744.¹⁶

The DOC observed that, since Xcel filed its petition on October 1, 2018, there is more certainty regarding grant payments for two grant projects. The Crown Hydro grant contract (AH-01) has been terminated at the direction of the Commission (the Order issued on October 15, 2018, in 17-712, and no timely requests for reconsideration have been filed). Therefore, the DOC noted that Xcel should update the 2018 tracker account to reflect the addition of the unpaid grant funds associated with this grant contract. The funds should be included in the 2018 year-end unencumbered balance. Xcel should also update the 2018 tracker account to reflect the addition the unpaid grant funds associated with the Coaltec (RD3-77) grant contract. The remaining funds from this grant contract should also be included in the 2018 year-end unencumbered balance.

Xcel Energy (Xcel) reply

In reply, Xcel agreed with the DOC that legislative mandates could reasonably be classified either as RDA or RDF expenses. Xcel initially decided to classify payments to fulfill legislative

¹⁴ Order, September 25, 2018, in Docket No. E-002/M-17-712, pp. 4-5.

¹⁵ The "known and measurable" costs that the Company proposed to include for cost recovery for 2017, 2018 and 2019 are listed in the DOC's comments, at page 8.

¹⁶ DOC comments, October 31, 2018, p. 18.

mandates as RDA-recoverable costs, but did not object to itemizing the RDF and RDA expenses in a different manner.

The Company offered two options: (1) to categorize the RDA transfer payments to MMB in one bucket and all other costs in another, or (2) to separate the costs into three categories—legacy RDF grant payments, RDA transfers, and other legislative mandates.

The DOC supported Option (1).

V. Staff discussion

The DOC performed a thorough and comprehensive review of Xcel's petition and recommended approval. Specifically, the DOC found Xcel's tracker account activity and proposed level for the 2019 rate rider factor to be reasonable.

The Commission's Order approving the rate rider factor for 2018 directed Xcel to itemize RDF and RDA expenses separately in future filings. It also required that \$28,009 in administrative costs be removed from the Company's proposed tracker balance (on which the 2018 rate rider factor was based). After its review, the DOC concluded that Xcel met both of these Commission-directed requirements as they relate to Xcel's 2019 rate rider filing. In addition, Xcel agreed with the DOC to take further action as part of a compliance filing to clarify how it will meet the requirement to itemize RDF and RDA expenses separately going forward.

Removing administrative costs from the tracker balance

As noted, the Commission required Xcel to remove \$28,009 in administrative cost from the tracker balance. As a result, Xcel did not include any administrative expense for 2018 and 2019 in its 2019 tracker balance, upon which the calculation of the 2019 rate rider is based.

Itemization of RDF and RDA expenses

The Commission's September 25, 2018 Order required Xcel to separately itemize RDF and RDA expenses. The DOC found that Xcel complied with this requirement. However, it disagreed with Xcel's grouping of payments to fulfill Minnesota legislative mandates as RDA-recoverable costs. It noted that both the Commission's Order and the 2017 legislation indicate that the Company must make annual payments into the RDA based on the number of dry casks containing spent fuel at each of the Company's two nuclear power plants, *minus the cost of legislative mandates*.

In reply, Xcel indicated a willingness to itemize the RDF and RDA expenses in a different way. Specifically, it proposed to separate the RDA transfer payments to MMB as one category, and all other costs as another. As noted, the DOC responded in support of this approach. The parties agreed that the Company would submit a compliance filing clarifying this separation of entries. Based on this agreement, staff has provided a specific decision option that captures the agreement.

2018 year-end unencumbered cumulative RDF balance

In its September 25, 2018 Order, the Commission concluded that transfer of the year-end unencumbered RDF tracker account balance funds to MMB was not appropriate at that time. The Commission concluded that since these obligated funds had not yet been recovered from ratepayers, they would not be eligible for transfer. Going forward, the Commission indicated that the cumulative unencumbered RDF balance should remain in the RDF tracker account until costs related to RDF project expenses were actually incurred by the Company. Once incurred, the Company could request recovery through the RDF rate rider factor as part of a future annual rate rider filing.¹⁷

The DOC noted that the Company's current recovery request does not extend to its full RDF nuclear cask obligation and is limited to payments to RDF grant projects and legislative mandates for actual or known and measureable expenses. The remainder of Xcel's nuclear obligated funds under the RDF are tracked as unencumbered or deferred payments and have not yet been collected from ratepayers.

The DOC estimated that Xcel's 2018 year-end cumulative unencumbered RDF balance is \$27,742,744.¹⁸ Because this number is based on four months of forecasted data, the parties agreed Xcel would submit a compliance filing by March 1, 2019, with the actual 2018 year-end cumulative unencumbered RDF tracker account balance, together with the actual 2018 year-end cumulative RDA tracker account balance.

Confirmation of the actual MMB payment

Since the \$13,754,134 payment to MMB is a forecast of future expenses, the Commission may wish to ask Xcel to confirm by a letter in the current docket when the transfer amount is actually made. Parties support this proposal.

¹⁷ The Commission's September 25, 2018 Order, in 17-712, p. 5, states:

Xcel's petition in this docket is its first under the amended statute. As an initial matter, Xcel stated that it did not transfer any funds from the RDF into the new RDA by the statute's July 1, 2017 deadline because those funds were either (1) awarded to grantees in prior grant cycles or (2) earmarked for legislative mandates and were therefore not subject to the transfer requirement. Under this approach, the existing unencumbered cumulative RDF balance would remain in the RDF on a going-forward basis until the Company incurs costs related to designated projects. The Company would then request changes to the RDF factor, in future annual filings, as necessary for cost recovery.

¹⁸ DOC comments, October 31, 2018, p. 18.

VI. Decision options

1. Approve Xcel's request for the 2019 RDF rate rider factor of \$0.001417 per kWh effective January 1, 2019. *(Xcel, DOC)*
2. Approve Xcel's request for approval of the Company's RDF 2018 RDF tracker account activity through August 31, 2018. *(Xcel, DOC)*
3. Require Xcel to file the actual 2018 year-end unencumbered cumulative RDF balance as well as the actual 2018 year-end cumulative RDA balance (transfer payment to MMB including any corresponding accumulated interest) in the tracker account. Xcel should submit this compliance filing by March 1, 2019. *(Xcel, DOC)*
4. Require Xcel, within 10 days of making the 2019 transfer payment to MMB, to file a letter in the current docket notifying the Commission of the transfer. *(Xcel, DOC)*

Staff recommendation and agreement by parties: Adopt Decision Options #1-4.