

Staff Briefing Papers

Meeting Date January 9, 2019 Agenda Item 5*

Company Northern States Power Company, doing business as Xcel Energy

Docket No. **E,G002/D-18-523**

In the Matter of the Petition of Northern States Power Company for Approval of its 2018 Annual Review of Transmission, Distribution, and General Depreciation Certification

Issues Should the Commission approve Xcel Energy’s 2018 annual update of remaining lives and depreciation rates for transmission, distribution and general accounts?

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 **Relevant Documents**

Date

Initial Filing – Xcel	July 31, 2018
Comments – Department	September 6, 2018
Reply Comments – Xcel	September 17, 2018
Response Comments – Department	October 18, 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.

I. Statement of the Issues

Should the Commission approve Xcel Energy's 2018 annual update of remaining lives and depreciation rates for transmission, distribution and general accounts?

II. Relevant Statutes, Rules and Procedures

A. Minn. Stat. § 216B.11. Depreciation Rates and Practices.

The commission shall fix proper and adequate rates and methods of depreciation, amortization, or depletion in respect of utility property, and every public utility shall conform its depreciation, amortization or depletion accounts to the rates and methods fixed by the commission.

B. Minn. Rules, pts. 7825.0500 – 7825.0900. Depreciation Certification.

1. Minn. Rules, pt. 7825.0600, subp. 1. Depreciation Certification.

Depreciation practices applicable to all utilities. All electric and gas utilities shall maintain, and have available for inspection by the commission upon request, adequate accounts and records related to depreciation practices as defined herein. Each utility has the prime responsibility for proposing the depreciation rates and methods that will be used. The commission shall certify by order to the utility the depreciation rates and methods which it considers reasonable and proper. Any allocation or adjustment of the depreciation reserve will require specific justification and certification by the commission.

Either the utility may submit or the commission may request a petition for depreciation certification because of unusual circumstances or unique situations.

2. Minn. Rules, pt. 7825.0900. Petition for Certification Procedure

... Depreciation rates and methods, once certified by order, are binding on all future rate proceedings and will remain in effect until the next certification or until the commission shall determine otherwise. ...

3. Minn. Rules, pt. 7825.0600, subp. 2 & 3. Depreciation Certification.

... All utilities shall review their depreciation rates annually to determine if they are still generally appropriate. Depreciation certification studies shall be made so that all primary accounts (class A & B utilities) or all functional groups of plant accounts (class C & D utilities) have been analyzed at least every five years. ...

C. Commission Practice

Depreciation methods, practices and rates are evaluated in depth once every five years in a depreciation study provided by the utility and then reviewed annually, usually in a request for certification of the remaining lives of the utility's assets. The depreciation rates established in

these proceedings are incorporated into the Company's revenue requirement and rates in a general rate proceeding. These stand-alone depreciation filings allow for a more thorough examination of the Company's depreciation methods, practices and rates independent of all the other issues that are examined and analyzed in a rate case. This is one of the main reasons for having separate depreciation filings.

Xcel Energy, submits several different depreciation filings periodically. Every five-years, Xcel submits a depreciation study of its transmission, distribution and general. In this docket, Xcel is proving an annual update of the remaining lives and depreciation rates for its transmission, distribution and general plant accounts.

Xcel also submits separate updates and reviews of the remaining lives and depreciation rates for its electric and natural gas production facilities.

III. Background & Parties' Comments

A. Xcel Energy – Initial Petition

On July 31, 2018, Xcel submitted its annual update of remaining lives and depreciation rates for its Transmission, Distribution and General Accounts in compliance with the Commission's order issued May 4, 2018 in Docket No. E, G-002/D-17-581.¹ The Commission's Order in the five year study approved Xcel's request to change from the average service life (ASL) method to an average remaining life (ARL) method of depreciation. The change from ASL to ARL requires the Company to file an annual update of remaining lives and depreciation rates.

This filing is an update to reflect one year's passage of time and includes additions and retirements that impact the average remaining lives and depreciation rates. The average service lives, net salvage rates, and retirement curves have not changed from those approved in Xcel's last depreciation filing in 2017 which was its required Five Year Study of Transmission, Distribution and General Accounts.

The impact to annual depreciation expense is a net decrease of \$449,371. After allocation of the Common Utility, the Electric Utility is a decrease of \$707,421 and Gas Utility is an increase of \$258,050. This variance represents a 0.14 percent decrease in annual depreciation expense when compared to present depreciation expense at current rates. The Company is requesting the rates be effective January 1, 2019.

B. Department of Commerce - Comments

On September 6, 2018, the Department submitted its comments. The Department reviewed Xcel's petition for compliance with filing requirements, previous Commission Orders and for reasonableness of the ARL depreciation method, remaining lives, salvage rates and overall depreciation accruals. The Department found all of the parameters to be reasonable but

¹ In the Matter of Northern States Power Company dba Xcel Energy's Five-Year Transmission, Distribution, and General Depreciation Study.

requested that the Company provide information in its reply comments on major future additions and retirements that may have a material effect on the current certification results.

C. Xcel – Reply Comments

On September 17, 2018, Xcel responded to the Department. The Company stated it does not anticipate that any major future addition or retirement in the electric, gas or common utility plant accounts would materially change the depreciation rates recommended in this filing. While there are large additions planned, the assets being installed should follow the lives established for the current assets, as the type and nature does not differ between the existing and the new assets. The Company committed to providing information on future additions and retirements in all future filings.

Xcel agreed with the Department’s recommendation to provide a current-versus-proposed comparison of the average remaining lives in future annual filings.

D. Department – Response Comments

On October 18, 2018, the Department submitted its comments. The Department concluded that the Company’s response to its request for information was reasonable and recommended the Commission:

- Approve Xcel’s proposed depreciation lives and rates in the 2018 Depreciation Study, effective January 1, 2019;
- Require Xcel to file its next remaining life depreciation petition by July 31, 2019;
- Require Xcel to file a comprehensive five-year depreciation study for its transmission, distribution, and general accounts by July 31, 2022; and
- Require Xcel to return the net decrease in electric utility depreciation expense of \$707,421 to ratepayers in the 2019 capital true-up filing in Docket No. E-002/GR-15-826.

IV. Staff Analysis

Although the parties agree that the Commission should approve the depreciable lives and rates presented in this filing, there is an issue the Department has raised in several other dockets that needs to be addressed. The Department has questioned FERC Account 390 - General Plant – Structures & Improvements and what method of depreciation is being used to depreciate the assets in this account. In those dockets, the Department asked the Companies to provide the following information in its next depreciation filing:

- Schedule listing the buildings included in Account 390;
- Historical cost amounts;
- Individual or allocated depreciation reserve amounts;
- Depreciation rate and method;
- In-service dates;

- Building address/location; and
- A description of the assets operational purpose.

The Department is requesting this information to properly evaluate the continued use of group depreciation accounting methods for utility service. It is staff's opinion that Xcel should also be required to provide this information so that it may be evaluated by the Department. At its meeting on January 9, 2019, the Commission may want to ask Xcel Energy whether it would agree to work with and provide this information to the Department.

V. Decision Options

1. Approve Xcel's proposed depreciation lives and rates in the 2018 Depreciation Study, effective January 1, 2019. (Department, Xcel) OR
2. Do not approve Xcel's proposed depreciation lives and rates in the 2018 Depreciation Study, effective January 1, 2019.
3. Require Xcel to file its next remaining life depreciation petition by July 31, 2019. (Department, Xcel) OR
4. Do not require Xcel to file its next remaining life depreciation petition by July 31, 2019.
5. Require Xcel to file a comprehensive five-year depreciation study for its transmission, distribution, and general accounts by July 31, 2022. (Department, Xcel) OR
6. Do not require Xcel to file a comprehensive five-year depreciation study for its transmission, distribution, and general accounts by July 31, 2022.
7. Require Xcel to return the net decrease in electric utility depreciation expense of \$707,421 to ratepayers in the 2019 capital true-up filing in Docket No. E002/GR-15-826. (Department, Xcel) OR
8. Do not require Xcel to return the net decrease in electric utility depreciation expense of \$707,421 to ratepayers in the 2019 capital true-up filing in Docket No. E002/GR-15-826.
9. Require Xcel to provide the following information in its next depreciation filing:
 - Schedule listing the buildings included in Account 390;

- Historical cost amounts;
 - Individual or allocated depreciation reserve amounts;
 - Depreciation rate and method;
 - In-service dates;
 - Building address/location; and
 - A description of the assets operational purpose.
10. Do not require Xcel to provide the information listed in decision alternative 9.