MINNESOTA
PUBLIC UTILITIES COMMISSION

# Staff Briefing Papers

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| Meeting Date | October 10, 2019 | | Agenda Item 9** |
| Company | Northern States Power Company d/b/a Xcel Energy | | |
| Docket No. | **G-002/M-18-692**<br><br>**In the Matter of the Petition of Northern States Power Company, d/b/a Xcel Energy, for Approval of a Gas Utility Infrastructure Cost Rider True-up Report for 2018, the Forecasted 2019 Revenue Requirements, and Revised Adjustment Factors.** | | |
| Issues | 1. Should the Commission approve or modify Xcel Energy's proposed 2019 Gas Utility Infrastructure Cost Rider revenue requirement and adjustment factors?<br>2. Should the Commission accept Xcel Energy's 2018 True up Report? | | |


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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** |
|---|---|
| Northern States Power Company d/b/a Xcel Energy  - Initial Petition | November 1, 2018 |
| Minnesota Department of Commerce, Division of Energy Resources - Comments | March 4, 2019 |
| Minnesota Office of the Attorney General – Residential utilities and Antitrust Division - Comments | March 4, 2019 |
| Northern States Power Company d/b/a Xcel Energy - Reply Comments | March 14, 2019 |
| Minnesota Public Utilities Commission – Notice of Comment Period | May 31, 2019 |
| Minnesota Department of Commerce, Division of Energy Resources – Response Comments | July 11, 2019 |
| Minnesota Office of the Attorney General – Residential Utilities and Antitrust Division - Letter | July 12, 2019 |
| Northern States Power Company d/b/a Xcel Energy – Reply to Response Comments | July 29, 2019 |
| Minnesota Public Utilities Commission – Order in Docket No. G-002/M-17-787 | August 12,2019 |
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# I. Statement of the Issue

- Should the Minnesota Public Utilities Commission approve or modify Xcel Energy's proposed 2018 Gas Utility Infrastructure Cost Rider revenue requirement and adjustment factors?
- Should the Commission accept Xcel Energy's 2018 true up report?

3. *A number of topics discussed in these briefing papers are typically addressed in general rate case proceedings rather than annual rider compliance filings but due to the length of time since Xcel Energy's last natural gas rate case and the complexity of the topics in the instant Petition, they arise here. Some of these topics are:*
4.
    - *Rate of Return*
    - *Sales Forecast*
    - *Performance Metrics*

# II. Introduction and Background

## A. Introduction

Northern States Power Company d/b/a Xcel Energy (Xcel Energy or the Company) is seeking approval of its updated Gas Utility Infrastructure Cost (GUIC) Rider to be in effect January 1, 2020 through December 31, 2020.[1] The Company requested that it be allowed to recover its forecasted 2019 GUIC revenue requirement of approximately $28.71 million,[2] subject to actual cost true-up. Xcel Energy's GUIC request for cost recovery includes expenditures for integrity management programs and deferred costs.[3]

Integrity Management Programs were introduced pursuant to the Pipeline Safety Improvement Act, passed by the U.S. Congress in 2002. The law directed the U.S. Department of Transportation to promulgate rules to address integrity programs for gas transmission lines. A Transmission Integrity Management Program (TIMP) is a prescriptive risk-based program with the objective to improve pipeline safety; gas transmission operators are required to assess the health and condition of a utility's gas transmission assets, and evaluate and prioritize repairs to mitigate the risks and threats related to operating these assets.

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[1] Xcel Energy's *Petition* at 37.

[2] As discussed below in Section III, Xcel Energy has revised its requested revenue requirement several times throughout this process.

[3] In Xcel Energy's most recent natural gas general rate case (Docket No. G-002/GR-09-1153), the Company was authorized an annual rate increase of $7.3 million, or 1.27 percent, to collect a total annual revenue requirement of approximately $592.9 million. Of this $592.9 million, at least $429 million was for the recovery of purchased gas costs. As a percentage of non-gas costs, Xcel Energy's $7.3 million rate increase was approximately 4.5 percent per year.

In 2009, the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration (PHMSA) published the final Distribution Integrity Management Program (DIMP) rule establishing integrity management requirements for gas distribution pipeline systems. The DIMP rules are intended to help gas distribution utilities identify, prioritize, and evaluate risks, identify and implement measures to address risk, and validate the integrity of their gas distribution system.

In 2005, the Minnesota Legislature enacted Minnesota (Minn.) Statute (Stat.) section (§) 216B.1635, the *Recovery of Gas Utility Infrastructure Costs* statute (GUIC statute), permitting gas utilities to file petitions for a rate schedule to recover certain costs of GUIC-defined projects. In 2013, the GUIC statute was amended which, in part, expanded both the definition of GUIC projects and the eligible rider-recoverable costs.[4]

Prior to the GUIC statute amendments, the Minnesota Public Utilities Commission (Commission) granted Xcel Energy deferred accounting for incremental TIMP/DIMP initiatives and for its sewer and gas line conflict-remediation program required by the Minnesota Office of Pipeline Safety (MNOPS).[5] In its January 27, 2015 *Order* (Docket No. G-002/M-14-336), the Commission approved the commencement of a five-year amortization recovery of these deferred costs through the GUIC Rider. This *Petition* represents the fifth and final year of amortization.[6]

## B. Background

### 1. 14-336 Docket

In Xcel Energy's inaugural GUIC petition, Docket No. G-002/M-14-336 (14-336 Docket), the Company requested approval of a new tariffed rate rider to recover Gas Utility Infrastructure Costs under Minn. Stat. § 216B.1635. On January 27, 2015, the Commission issued its *Order Approving Rider with Modifications*.

In the 14-336 Docket, the Commission approved Xcel Energy's proposed GUIC rider with the following modifications:

- a reduced overall rate of return, calculated using the capital structure and cost of debt from Xcel Energy's then pending electric rate case[7] and the cost of equity from its last natural gas rate case;[8]

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[4] A complete copy of Minn. Stat. § 216B.1635 is attached to these briefing papers.

[5] See Docket Nos. G-002/M-10-422 and G-002/M-12-248, respectively.

[6] The deferred amounts and five-year amortization are shown in Attachment K of Xcel Energy's *Petition*.

[7] Docket No. E-002/GR-13-868.

[8] Docket No. G-002/GR-09-1153.

- a rate design that allocates responsibility for the GUIC rider revenue requirement according to the revenue apportionment approved in Xcel Energy's last natural gas rate case;[9] and

- an effective date as of the date of the January 27, 2015 order, with final rate-adjustment factors calculated to recover 2015 revenue requirement over the remaining months of 2015.

**2. 15-808 Docket**

In Xcel Energy's 2015 true-up report and request for 2016 forecasted revenue requirement and revised adjustment factor, in Docket No. G-002/M-15-808 (15-808 Docket), the Company requested approval of its 2015 true-up report and 2016 GUIC revenue requirements along with implementation of a new Federal Code Mitigation project and a request to modify the effective period of the GUIC rider factor to be in place through March 31st, rather than December 31st.

In the 15-808 Docket *Order*, the Commission approved Xcel Energy's 2015 true-up report and 2016 GUIC revenue requirements and revised adjustment factors with the following modifications:

- approved an overall rate of return of 7.34 percent;

- required Xcel Energy to develop specific metrics to measure the appropriateness of GUIC expenditures, to be included in future GUIC Rider filings, and provide stakeholders the opportunity for meaningful involvement; and

- required Xcel Energy to include specific information about each individual project in future GUIC Rider filings that sufficiently, (1) describes what the project is, (2) explains why the project is necessary, (3) discusses what benefits ratepayers will receive from the project, and (4) identifies the agency, regulation, or order that requires the project.

**3. 16-891 Docket**

In Xcel Energy's 2016 true-up report and request for 2017 forecasted revenue requirement and revised adjustment factor, in Docket No. G-002/M-16-891 (16-891 Docket), the Company requested approval of its 2016 true-up report and 2017 GUIC revenue requirements.

In the 16-891 Docket *Order*, the Commission approved Xcel Energy's 2016 true-up report and 2017 GUIC revenue requirements and revised adjustment factors with the following modifications:

- Approved an overall rate of return of 7.02 percent;

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[9] *Id*.

- Denied Xcel Energy's proposed Accumulated Deferred Income Tax (ADIT) proration for the forecasted year and determined that the 2017 GUIC Rider must not be effective prior to January 1, 2018;
- Disallowed Quality Assurance/Quality Control related costs as duplicative services;
- Continued to require Xcel Energy to discuss, with other parties, proposed performance metrics and ongoing evaluation of reporting requirements in future GUIC proceedings; and
- Continued to require Xcel Energy to include specific information about each individual project in future GUIC Rider filings that sufficiently, (1) describes what the project is, (2) explains why the project is necessary, (3) discusses what benefits ratepayers will receive from the project, and (4) identifies the agency, regulation, or order that requires the project.

**4. 17-787 Docket**

In Xcel Energy's 2017 true-up report and request for 2018 GUIC revenue requirements and revised adjustment factors, in Docket No. G-002/M-17-787 (17-787 Docket), the Commission approved Xcel Energy's 2017 true-up report and 2018 GUIC revenue requirements and revised adjustment factors with the following modifications:

- Authorized recovery of 2018 revenue requirements over the 12 months following the effective date of the order;
- Maintained the approved rate of return at 7.02 percent with an ROE of 9.04 percent;
- Required an effective date of January 1, 2019;
- Required Xcel Energy to use the most recent 12 months of actual natural gas sales to calculate final rates;
- Limited the return on Maximum Allowable Operating Pressure validation capital costs to the Company's long-term cost of debt;
- Disallowed recovery of low-risk infrastructure replacement work; and
- Disallowed the implementation of a carrying charge to the GUIC tracker account.

**5. 18-692 Docket (this docket)**

In the instant *Petition* submitted on November 1, 2018, Xcel Energy requests Commission approval of the 2018 true-up report and 2019 GUIC revenue requirements and revised adjustment factors. The Minnesota Department of Commerce, Division of Energy Resources (Department) and the Office of the Attorney General – Residential Utilities and Antitrust Division (OAG) filed comments discussing a number of issues. The issues addressed are:

- Sales Forecast
- Rate of Return
- The Tax Cuts and Jobs Act of 2017
- Sewer and Natural Gas Line Conflict Rider Recovery Amount
- GUIC Retired Facilities Revenue Credit
- Prorated Accumulated Deferred Income Taxes for Rate Base Determination

- Carrying Charge on Unrecovered GUIC Rider Recovery Tracker Balance
- DIMP – Costs for Low-Risk Infrastructure Work Done in Conjunction with Higher Risk GUIC-Eligible Work
- Removal Costs Impact on GUIC Recovery Request
- TIMP – Programmatic Replacement and MAOP Remediation
- Internal Capitalized Costs
- Risk Assessment and Performance Metrics

The following sections of these briefing materials discuss in more detail the positions and comments of the parties.

# III. Xcel Energy's Initial Petition

Xcel Energy has seven ongoing GUIC projects, three are TIMP-related and four are DIMP-related.[10] In determining the 2019 GUIC revenue requirement, Xcel Energy proposed using a rate of return (ROR) of 7.63 percent, which is based on a proposed ROE of 10.25 percent.

According to Xcel Energy, responsibility for the GUIC rider revenue requirement is allocated to customer classes consistent with how responsibility for the Company's revenue requirement was apportioned in Xcel Energy's most recent natural gas rate case, in docket 09-1153.

The proposed 2019 GUIC factors by customer class along with existing factors are shown in Xcel Energy's petition (shown below).[11]

**Table 1: Proposed 2019 GUIC Adjustment Factors**
**($ per therm)**

| | Current Factors | 2018 Factors* | 2019 Proposed Factors** |
|---|---|---|---|
| Residential | $0.027634 | $0.055641 | $0.051938 |
| Commercial Firm | $0.015080 | $0.029202 | $0.027807 |
| Commercial Demand Billed | $0.011332 | $0.018960 | $0.020294 |
| Interruptible | $0.008114 | $0.013980 | $0.015563 |
| Transportation | $0.003287 | $0.002646 | $0.003889 |

* Assumes the 2018 revenue requirement is recovered Mar. 1, 2019 through Dec. 31, 2019.
** Assumes the 2019 proposed revenue requirement is recovered Jan. 1, 2020 through Dec. 31, 2020.

With TIMP and DIMP combined, the table below summarizes(as of November 1, 2018) Xcel Energy's overall projected annual and year-to-date (YTD), GUIC capital expenditures and each

[10] Xcel Energy's projects are more fully discussed in Attachment C (TIMP) and Attachment D (DIMP) of the *Petition*.

[11] Xcel Energy *Petition* at 36.

year's projected GUIC revenue requirements, inclusive of deferred costs, through the year 2023:

| Table 2: Projected GUIC Capital Expenditures & Revenue Requirements 2015 - 2023 ($ 000s) | | | |
|---|---|---|---|
| | Capital Expenditure* | | |
| Year | Annual | YTD | Rev. Req.^ |
| Pre-2015 | | $ 21,952 | |
| 2015 | $ 29,021 | $ 50,973 | $ 12,503 |
| 2016 | $ 31,979 | $ 82,952 | $ 16,147 |
| 2017 | $ 20,235 | $ 103,187 | $ 19,959 |
| 2018 | $ 47,313 | $ 150,500 | $ 19,872 |
| 2019 | $ 43,064 | $ 193,564 | $ 28,906 |
| 2020 | $ 51,233 | $ 244,797 | $ 25,657 |
| 2021 | $ 45,558 | $ 290,355 | |
| 2022 | $ 48,925 | $ 339,280 | |
| 2023 | $ 47,830 | $ 387,110 | |

* Source: *Petition*, page 23, Table 3
^ Source: *Petition*, Attachment O, revenue requirement data for 2021 – 2023 was not provided

The lower revenue requirement in 2020, as compared to 2019, is due to the conclusion of the recovery of certain deferred costs (five-year amortization) and the anticipated completion of the gas and sewer line investigation project in 2019.[12]

Xcel Energy proposed a customer notice billing message using the same language approved in its prior GUIC docket, which is included on page 39 of its *Petition*. Xcel Energy stated its willingness to work with Department and Commission staff if modifications are suggested.

As noted above, Xcel Energy revised its 2019 GUIC revenue requirement in subsequent filings. In *Reply Comments* Xcel Energy revised its revenue requirement upward from $28.91 million to $28.96 million to account for the updating of actual 2018 GUIC-related retirements along with an updated estimate of retirements in 2019. In addition, Xcel Energy removed $50,000 to account for sewer conflict remediation costs already included in current natural gas rate base, as recommended by the Department. Xcel Energy provided the following table in its *Reply Comments*.

[12] Xcel Energy *Petition* Attachment K.

**Table 3: 2019 GUIC Rider Revenue Requirements Summary ($ Millions)**

| | |
|---|---|
| 2019 Revenue Requirement in Petition | $28.91 |
| Adjustment of 2018 GUIC-related retirement revenue impact | 0.10 |
| Removal of Sewer Conflict O&M in Base Rates | (0.05) |
| **Updated 2019 Revenue Requirement** | **$28.96** |

In its *Reply to Response Comments*, Xcel Energy revised its 2019 GUIC revenue requirement downward from $28.96 million to $28.71 million removing an additional $250,000 in costs related to the amortization of previously deferred sewer and natural gas line remediation costs.

# IV. Discussion of Issues

## A. Resolved Issues

### 1. GUIC Retired Facilities Revenue Credit

Xcel Energy included a $0.76 million reduction in its 2019 GUIC Rider revenue requirement calculation to account for the embedded cost recovery of gas facilities in base rates, which were based on a 2010 test year, now retired due to GUIC projects. Among Xcel Energy's listed components and their amounts used to calculate the $0.76 million reduction, a separate line item adjustment for *Annual Deferred Tax Impact* was included.[13]

The Department's *Comments* recommended that Xcel Energy remove the component *Annual Deferred Tax Impact* when determining the GUIC Plan Retirement Revenue Credit, to avoid double counting that element, because the Department believed the return on rate base operation in Xcel Energy's revenue requirement's calculation included the revenue gross-up for both the current and the deferred tax expense amounts ascribed to these assets.

In *Reply Comments*, Xcel Energy explained and demonstrated that it had removed the deferred income tax amount from the return on rate base tax-gross-up calculation; therefore Xcel Energy did not include the *Annual Deferred Tax Impact* twice. Xcel Energy detailed its calculation in Table 3 of its *Reply Comments*.[14] The Department reviewed Xcel Energy's *Reply Comments* and agreed that Xcel Energy did not double-count the *Annual Deferred Tax Impact*; therefore, no adjustment is needed.

### 2. Prorated Accumulated Deferred Income Tax

Xcel Energy's *Petition* prorated accumulated deferred income tax (ADIT) to determine the rate base component value, a normalization requirement instituted by the Internal Revenue Service (IRS) when the rate becomes effective prior to the conclusion of the forecasted period.[15] The

[13] *Id*. at 20.

[14] Xcel Energy *Reply Comments* at 9.

[15] Xcel Energy *Petition* at 36, and Attachment R.

Department noted that the proration procedure is unnecessary because the effective date of this rider commences after the test period. Xcel Energy agreed with the Department's assessment and stated that it will remove the impact of ADIT proration in its compliance filing.[16]

### 3. Removal Costs Impact on GUIC Recovery Request

The Department, in its *Comments*, summarized Xcel Energy's reported years' 2017 – 2020 removal cost impact on the GUIC Rider rate base components, *Accumulated Book Depreciation Reserve* and the *Accumulated Deferred Taxes*; the Department requested Xcel Energy explain each years' sum-total dollar amounts because the two components' reported amounts within each year did not appear to correlate, though the two accounts have a relationship.[17]

In *Reply Comments*, Xcel Energy explained that there are timing differences as to when these two accounts reflect removal activity. Xcel Energy stated that changes to the *Accumulated Deferred Taxes* account occurs when the expenditures for removal work are made, whereas the *Accumulated Book Depreciation Reserve* account changes are triggered after the removal work is completed and all expenditures completed/closed.

In *Response Comments*, the Department concluded that Xcel Energy's explanation of the methodology used alleviated the Department's concern and adequately resolved the issue.

### 4. Tax Cuts and Jobs Act of 2017

On December 22, 2017, Pub Law 115-97 (known as the Tax Cuts and Jobs Act of 2017, or TCJA), took effect, reducing the marginal federal corporate income tax rate from 35 percent to a flat 21 percent, effective January 1, 2018.[18] This enactment constituted a known and measurable change for Minnesota rate-regulated utility rates going forward.

On December 29, 2017, the Commission issued its *Notice of Commission Investigation into the Effect of the 2017 Federal Tax Act on Utility Rates and Services* in Docket No. E,G-999/CI-17-895 (Tax Docket). The Tax Docket was before the Commission at its August 9, 2018 Agenda Meeting. The Commission required utilities to refund all impacts of the TCJA to ratepayers. This requirement included changes to current period tax expense on the income statement, changes to the tax gross-up on the revenue requirement deficiency, and the amortization of excess accumulated deferred income tax (excess ADIT or EDIT) balances. In addition, the Commission required utilities to separately incorporate the effects of the TCJA in each rider mechanism.

In *Comments*, the Department determined that Xcel Energy was using the appropriate federal income tax in calculating tax expense and the tax gross-up factor. However, the Department

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[16] Xcel Energy *Reply Comments* at 15.

[17] Department *Comments* at 20.

[18] See H.R. 1—115th Congress: AN ACT TO PROVIDE FOR RECONCILIATION PURSUANT TO TITLES II AND V OF THE CONCURRENT RESOLUTION ON THE BUDGET FOR FISCAL YEAR 2018.

noted that the Company's schedule did not show all the necessary detail and requested that Xcel Energy in its *Reply Comments* the following:

- The excess ADIT (EDIT) balance, due to the TCJA, that is to be returned to ratepayers; and
- The amortized amount of the EDIT being included in the GUIC revenue requirement.

In response, Xcel Energy provided the requested information as attachments A and B to its *Reply Comments*. Further, the Company explained that the ADIT and EDIT balances presented in this *Petition* represent fully normalized federal and state plant ADIT balances calculated using the Average Rate Assumption Method ("ARAM"). Under this method, deferred tax expense is calculated at the current rate, and the deferred taxes flow back at the average of all the current rates used to set up the deferred balance. The calculation is performed for all years in which the tax depreciation is greater than the book depreciation, and it flows back when the reverse occurs. Using ARAM assures that when a tax rate decreases, the overall deferred liability is not immediately adjusted downward. ARAM allows the deferred amounts to flow back at the established rates over the remaining life of the assets. This method is consistent with the method used for EDIT within Xcel Energy's base rates and is in agreement with Internal Revenue Service (IRS) tax normalization rules.

In *Response Comments*, the Department concluded that the amortization method that Xcel Energy applied in the GUIC Rider is reasonable. However, the Department noted that Xcel Energy's *Reply Comments* discussed, for the first time, that the bifurcation of ADIT and excess ADIT (i.e., EDIT) in its model resulted in slightly higher revenue requirements. The Department questioned the Company to explain how a breakdown of a sum total into its operands would cause any change in the 2019 revenue requirements.[19] The Department also issued discovery requesting explanation of notable changes in the total income tax amounts reported in Xcel Energy's Reply Comments modified schedules as compared to the initial Petition amounts.[20]

The Department noted that Xcel Energy's responses to these information requests explained that since the filing of its Reply Comments, the Company discovered logic errors in the reprograming of the revenue requirement modeling system. Xcel stated that it corrected the programming errors and provided in response to the Department's information requests a second revision to its revenue requirements schedules, Petition Attachments G and H. Xcel Energy's second revision to the revenue requirement schedules now shows the Company's net revenue requirement position to change from a $16,000 increase over the initial *Petition* provided in Reply Comments, to a $5,000 decrease below the initial *Petition* provided in subsequent discovery.

The Department noted that although the results of the revenue requirements schedule corrections may appear immaterial, it is essential to have confidence in the revenue

[19] Department Information Request No. 51.A, included as Attachment 1-RC.

[20] Department Information Request No. 52, included as Attachment 2-RC.

requirements model used by the utility. The impact of these programming errors, if left undiscovered, could have greater ramifications in subsequent filings. To that end, the Department's review of the second revised revenue requirements schedule Attachments G and H provided in Xcel's response to DOC IR No. 51, Part A, prompted further discovery to understand why the Total ADIT balance no longer equaled the sum of the operands, ADIT and excess ADIT. As a result, Xcel Energy determined that further refinement of the revenue requirement modelling was needed to remove an inadvertent proration of the ADIT, resulting in another slight reduction to the 2019 GUIC Rider revenue requirement.[21] The Company stated in its response to DOC IR No. 56 that its final compliance schedules would be updated with final data, revised model reprogramming, and no ADIT prorate.[22]

The Department stated that it appreciated Xcel Energy's cooperative efforts to ensure that its revenue requirement model correctly processes these complex tax-related changes. To aid in the Department's review of Xcel Gas's future final compliance filing, the Department requested that Xcel Energy include electronic files of its revenue requirements schedules, with formulae intact, in its final compliance filing.

## B. Disputed Issues – Discussed in previous GUIC petitions

A number of issues discussed in the instant proceeding have been discussed in previous GUIC petitions (e.g., Docket No. G-002/M-17-787) however, due to the length of time from initial filing to the issuance of a Commission Order in the 17-787 Docket, the instant petition was filed and a number of issues were duplicated. This section contains discussion on issues that are either identical or reasonably close to discussion from the 17-787 Docket.

### 1. Sales Forecast

#### a. Background

Xcel Energy uses a sales forecast to project natural gas consumption for each customer class for the GUIC. The projected sales are used to determine the proposed 2019 GUIC rate for each customer class, given each class' 2019 revenue requirement. The sales forecast needs to be reasonable since a sales forecast that is too low will cause rates to be too high, and the Company will over-recover its revenue requirement. Conversely, if the sales forecast is too high, rates will be set too low, and Xcel Energy will under-recover its revenue requirement.

In Xcel Energy's 2017 GUIC, the Commission ordered two revisions to Xcel Energy's sales forecast. First, was a monthly historical sales adjustment that effectively "smoothed" the Company's sales data; second, was an adjustment for demand-side management (DSM) energy savings.[23]

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[21] Department Information Request No. 56, included as Attachment 3-RC.

[22] *Id.*

[23] *In the Matter of the Petition of Northern States Power Company, d/b/a Xcel Energy, for Approval of a Gas Utility Infrastructure Cost Rider True-up Report for 2016, Forecasted 2017 Revenue Requirement,*

> The Commission approves a revised sales forecast based on the Company's regression model results before monthly sales and demand-side management (DSM) adjustments as set forth by the Company in Attachment F of its reply comments for the 2017 GUIC rider.

In the 17-787 Docket, the Department noted a mismatch of forecast data in the GUIC and historical data reported in Xcel Energy's *Gas Jurisdictional Annual Report* (GJAR). The Department noted that the Company's GUIC sales forecast was much lower than the actual sales reported in Xcel Energy's GJAR.

### b. Department Comments

The Department reviewed Xcel Energy's sales forecast data, assumptions, and statistical outputs underlying those figures and concluded that they are "generally reasonable."[24] The Department noted that the Company left out both the monthly historical and DSM adjustments discussed above. The Department did request Xcel Energy to clarify the following items in reply comments:

- Explain the interdepartmental Transportation class assumptions;
- Clarify whether the Company assumed, or included, any other cost drivers in its data and projections; and
- Clarify if billing month customer count numbers are converted to calendar month average customer counts in the forecasting process.

### c. Xcel Energy Reply Comments

In response, Xcel Energy stated that it included a reduction in Interdepartmental Transport volumes in the forecast used in the GUIC Rider filing which is a continuation of the reduction that was included in previous GUIC Rider filings. The Company noted that this adjustment accounts for decreases in its natural gas generation and interdepartmental transport forecasts that will result when we have additional energy from new wind projects which are scheduled to begin service in the fourth quarter of 2019.[25]

As for customer counts used in the forecasting process, Xcel Energy stated that it uses active service counts, which are also called calendar month customer counts and does not use billing month customer count numbers in any part of the forecasting process.

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*and Revised Adjustment Factors*, Docket No. G-002/M-16-891, Order Approving Rider with Modifications (February 8, 2018) at OP 8.

[24] Department *Comments* at 12.

[25] Xcel Energy *Reply Comments* at 7.

### d. Department Response Comments

The Department stated it does not support Xcel Energy's speculation on how increased renewables may decrease natural gas sales and its use in a rate-setting sales forecast.

The Department noted that the Commission, in its May 23, 2019 Agenda Meeting, directed Xcel Energy to use its most recent 12 months of actual natural gas sales, rather than using the forecasted sales. Since the Company continues to use the interdepartmental transport adjustment in its GUIC forecast, the Department concluded that this course of action is appropriate in the 2019 GUIC Rider as well.[26]

Therefore, the Department recommended that the Commission continue to direct Xcel Energy to use the most recent 12 months of actual natural gas sales to calculate the final GUIC Rider rates.

### e. Xcel Energy Reply to Response Comments

Xcel Energy continues to believe that setting final GUIC Rider rates based on the expected sales for the recovery period is reasonable. The Company argues that setting rates with the use of a reasonable sales forecast should more closely match revenues recovered through sales with the approved revenue requirement.

As a part of developing its sales forecast, Xcel Energy included a reduction in interdepartmental transport volumes in the forecast used in the GUIC Rider filing. This adjustment accounts for anticipated decreases in our natural gas generation and interdepartmental transport that will result when it begins to receive additional energy from new wind projects. The Company stated that it "has major additions of wind generation coming into service during the forecasted sales period, so incorporating these adjustments is appropriate to anticipate reductions in sales that are expected to occur during the sales forecast period."

### f. Staff Analysis

In the Commission's *Order Authorizing Rider Recovery and Setting Reporting Requirements* in the 17-787 Docket, the Commission addressed this particular issue that has again surfaced in the instant petition. Specifically, the Commission stated:[27]

> To avoid the use of potentially inaccurate sales forecasts in determining revenue apportionment, the Department recommended that the Commission require Xcel to use its most recent 12 months of actual natural gas sales to allocate the costs across jurisdictions and classes.

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[26] Department *Response Comments* at 2.

[27] Commission *Order Authorizing Rider Recovery and Setting Reporting Requirements*, filed August 12, 2019 in Docket No. G-002/M-17-787 at 8.

> The Commission concurs with the Department and will require Xcel to use the most recent 12 months of actual natural gas sales to calculate the final rate.

Additionally, the parties discussed Xcel Energy's lower-than-expected sales which, in the 17-787 Docket, the Company attributed partly to the emergence of renewables. The Commission was not persuaded to approve Xcel Energy's proposal to use a sales forecast with a historical adjustment and ordered the Company to instead use the most 12 months of actual natural gas sales to calculate the final rate.

#### g. Decision Alternatives

The decision alternatives for this issue are listed as 5 and 6 to match the decision alternative numbering at the end of the briefing papers.

5. Allow Xcel Energy to utilize its 2019 sales forecast to allocate costs across jurisdictions and classes. [Xcel Energy]

6. Require Xcel Energy to use the most recent 12 months of actual natural gas sales to calculate the final GUIC Rider rates. [Department]

### 2. Carrying Charge on Unrecovered GUIC Rider Recovery Tracker Balance

#### a. Background

Xcel Energy proposed the implementation of a carrying charge on its GUIC tracker balance beginning January 1, 2020.[28] The charge would require ratepayers to pay interest on under-recovered amounts. The concept of a carrying charge was first discussed in the 14-336 Docket. In the 14-336 Docket Order, the Commission denied the recovery of a carrying charge in the GUIC tracker.[29] Xcel Energy again requested the implementation of a carrying charge in its most recent GUIC petition (17-787 Docket) however, due to the extended comment period and regulatory review a Commission order was not issued prior to the filing of the instant *Petition*. In an order dated August 12, 2019, the Commission denied the Company's request for implementation of a carrying charge in the 17-787 Docket.[30]

#### b. Department Comments

The Department continues to oppose the implementation of a carrying charge. The Department noted: 1) use of a GUIC Rider is an optional recovery tool which permits natural

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[28] Xcel Energy *Petition* at 38.

[29] *In the Matter of the Petition of Northern States Power Company, d/b/a Xcel Energy, for Approval of a Gas Utility Infrastructure Cost Rider,* Docket No. G-002/M-14-336, Order Approving Rider with Modifications at 12 (January 27, 2015).

[30] *In the Matter of the Petition of Northern States Power Company, d/b/a Xcel Energy, for Approval of a Gas Utility Infrastructure Cost Rider True-up Report for 2017, Forecasted 2018 Revenue Requirement and Revised Adjustment Factors,* Docket No. G-002/M-17-787, Order Approving Rider with Modifications at 11, 12 (August 12, 2019).

gas utilities to begin recovery of eligible costs sooner than its next general rate case; 2) the Company has control over the magnitude and complexity of its GUIC petitions; 3) GUIC Rider mechanism is subject to a true-up and the utility is assured of full recovery of its approved costs; 4) the Company continues to receive revenue from the previous GUIC Rider while the current GUIC is being reviewed; and 5) the Company's plant-in-service amounts include financing costs incurred while projects were under construction and prior to plant being placed into service, thus, the utility recovers its GUIC projects' pre-implementation financing costs through the rider rate.

#### c. Xcel Energy Reply Comments

In response, Xcel Energy argued the use of a carrying charge on the unrecovered GUIC Rider tracker balance is reasonable and appropriate. In light of the longer review process for GUIC Rider filings, in part due to the complexities inherent in this docket, a reasonable carrying charge can be a useful tool. This carrying charge would enable the Company to remain financially whole during the review process while allowing for a thorough evaluation of Xcel Energy's petition and development of the record.

#### d. Department Response Comments

The Department reiterated its arguments from its initial comments and continues to oppose implementation of a carrying charge.

#### e. Xcel Energy Reply to Response Comments

Xcel Energy continues to believe the use of a carrying charge on the unrecovered GUIC Rider tracker balance is reasonable and appropriate. Xcel Energy argued that the carrying charge would enable the Company to remain financially whole during the review process while allowing for a thorough evaluation of Xcel Energy's petition and development of the record.

#### f. Staff Analysis

Xcel Energy acknowledges in its reply comments that carrying charges work both ways, both as a charge to the Company's ratepayers for under-recovery and as a charge to the Company for over-recovery. In addition to Xcel Energy's previous GUIC dockets, the Commission also denied Minnesota Energy Resources Corporation's request for carrying charges.[31]

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[31] In Minnesota Energy Resource Corporation's (MERC) GUIC, Docket No. G-011/M-18-281, the Commission denied MERC's request for a carrying charge to apply in its February 5, 2019 *Order Approving Gas Utility Infrastructure Cost Rider With Modification and Requiring Compliance Filing.*

### g. Decision Alternatives

7. Approve the implementation of a carrying charge in the GUIC tracker account. [Xcel Energy]

8. Deny implementation of a carrying charge in the GUIC tracker account. [Department]

## 3. DIMP – Costs for Low-Risk Infrastructure Work Done In Conjunction with Higher Risk GUIC-Eligible Work

### a. Background

Xcel Energy included proposed cost recovery for low-risk infrastructure work that was done in conjunction with higher-risk GUIC-eligible work. The Company identified that only its *DIMP Poor Performing Mains and Services Program* projects may include low-risk infrastructure replacement while undertaking a higher risk project. Xcel Energy requested cost recovery low-risk infrastructure replacement in its most recent GUIC petition however, due to the extended comment period and regulatory review a Commission order was not issued prior to the filing of the instant *Petition*. In an order dated August 12, 2019, the Commission denied the Company's request for recovery of the requested low-risk infrastructure replacement costs.[32]

### b. Department Comments

The Department opposes the request for cost recovery noting the expenditures on low-risk infrastructure replacement are elective, and not supported by or responsive to civic/public work requirements or government regulations, and therefore not eligible for recovery through the GUIC rider mechanism. The Department argued that the proximity of low risk work to a GUIC-eligible project does not make low-risk project work eligible for inclusion in the GUIC Rider.[33]

### c. Xcel Energy Reply Comments

In response, Xcel Energy argued that including the low-risk infrastructure replacement work not only minimizes the disruption to local communities but also streamlines the construction process resulting in a more efficient and cost-effective replacement. Specifically, the Company argued:

> Indeed, it is the Company's practice to complete DIMP infrastructure work in the most cost-effective manner possible. In this case, we estimate that including a

[32] *In the Matter of the Petition of Northern States Power Company, d/b/a Xcel Energy, for Approval of a Gas Utility Infrastructure Cost Rider True-up Report for 2017, Forecasted 2018 Revenue Requirement and Revised Adjustment Factors,* Docket No. G-002/M-17-787, Order Approving Rider with Modifications at 10, 12 (August 12, 2019).

[33] Department *Comments* at 21.

> low- risk segment in the overall scope of construction work can save approximately $24,000 per project by eliminating duplicative costs for excavation, tie-in, and reclamation.
>
> By contrast, we estimate that the incremental costs associated with the low-risk work (which is primarily the additional pipeline equipment) is—at most—$1,200 per project. Moreover, while we do not normally track the amount of low-risk projects completed in conjunction with high-risk work, we estimate that the total number of such projects in our current GUIC request is less than ten. In total the Department's concern relates to less than $12,000 of incremental costs in this docket. Due to the efficiencies discussed above, we believe our practice is reasonable and squarely within customers' interests.

#### d. Department Response Comments

The Department reiterated its position that the request does not meet the requirements for GUIC recovery and should be denied. Specifically, the Department stated:

> Contrary to Xcel's thinking, the Department affirms that infrastructure work done that does not meet the statutory criteria for the GUIC Rider must be excluded, regardless of the financial outlay that year's 'work-done-in-conjunction with GUIC eligible project' requires.

#### e. Staff Analysis

Minn. Stat. § 216B.1635 allows utilities to seek rider recovery of gas utility infrastructure costs. Gas utility infrastructure costs are costs, not included in the gas utility's rate base in its most recent general rate case, that are incurred in projects involving (1) the replacement of natural gas facilities required by road construction or other public work by or on behalf of a government agency or (2) the replacement or modification of existing facilities required by a federal or state agency, including surveys, assessments, reassessment, and other work necessary to determine the need for replacement or modification of existing infrastructure.[34]

Projects that constitute a "betterment" do not qualify for rider recovery unless the betterment is "based on" requirements by a political subdivision or a federal or state agency.[35]

The statute does not define "betterment." However, *Black's Law Dictionary* contains three definitions of the term:

> 1. An improvement that increases the value of real property; esp., an enhancement in the nature of an alteration or addition that goes beyond repair or restoration to a former condition. 2. An improvement of a highway, railroad, or

[34] Minn. Stat. § 216B.1635, subd. 1(b), (c).

[35] *Id.*, subd. 1(b)(3).

building that goes beyond repair or restoration. 3. An increase in value, esp. real-estate value, attributable to improvements.[36]

None of *Black's* definitions perfectly fits the context of utility infrastructure projects. However, the second definition comes the closest. It states that an improvement that goes "beyond repair or restoration" rises to the level of a betterment.

In the August 12, 2019, Order in the 17-787 Docket, the Commission determined that low-risk infrastructure projects did not qualify for GUIC Rider recovery and denied Xcel Energy's request for GUIC Rider recovery.

#### f. Decision Alternatives

9. Approve cost recovery of low-risk infrastructure replacement done in conjunction with a GUIC eligible project. [Xcel Energy]
10. Require Xcel Energy to remove and exclude from the GUIC Rider costs incurred on low-risk infrastructure replacement work activity not required by either civic/public work requirements nor by government regulations. [Department]

### 4. TIMP – Programmatic Replacement and MAOP Remediation

#### a. Background

This project focuses on remediating Xcel Energy's system data gap findings in order to ensure that the pipeline's maximum allowable operating pressure (MAOP) can be supported by records that are traceable, verifiable, and complete. According to federal regulations, a pipeline operator must not operate a pipeline that exceeds authorized MAOP.[37] The requirements to validate pressure for plastic and steel pipe were first enacted on August 19, 1970. On January 3, 2012, President Obama signed the Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011, which requires the Pipeline and Hazardous Materials Safety Administration (PHMSA) to direct each owner or operator of a gas transmission pipeline and associated facilities to provide verification that their records accurately reflect the MAOP of their pipelines. Xcel Energy stated that the federal PHMSA requires pipeline operators to maintain and file records that are traceable, verifiable, and complete to establish compliance with MAOP requirements. The Company explained that it is working to resolve gaps in its records through, among other steps, maintenance and testing, and requested cost recovery related to such work.

This project began in 2017 and is designed to meet the requirement to have traceable, verifiable, and complete records of a pipeline's MAOP and targets necessary repairs or replacement efforts on transmission pipelines that have been assessed for asset health and condition in prior years. Through this project, Xcel Energy is gathering and validating existing MAOP records for the Company's transmission pipelines, and remediating any gaps in such

[36] *Black's Law Dictionary* 182 ($11^{th}$ ed. 2019).

[37] 49 C.F.R. § 192.619.

records. Remediating gaps includes addressing missing records associated with pipe diameter, wall thickness, grade, seam type, manufacturer, component ratings and historic pressure test data. Other record gaps could include missing information regarding design, fabrication, construction, maintenance, and testing. To validate MAOP, Xcel Energy utilizes pressure tests to establish baseline operating pressures and will replace assets, when applicable, due to lack of historical MAOP documentation needed to meet criteria established by PHMSA.

This issue was previously addressed by the Commission in Xcel Energy's most recent GUIC petition however, due to the extended comment period and regulatory review a Commission order was not issued prior to the filing of the instant *Petition*.[38] In an order dated August 12, 2019, the Commission denied the Company's request for cost recovery of MAOP remediation and instead limited the return ***on*** MAOP validation costs to the Company's cost of long-term debt.[39]

### b. Department Comments

The Department concluded that inadequate data records is concerning, especially given that data records were and continue to be within the control and responsibility of Xcel Energy. The Department noted that having substantiated, objective MAOP records is fundamental to safe pipeline operations, protecting not only the liability of the utility and its operators, but the safety of those located near the pipeline infrastructure. The Department noted that 49 CFR § 192.517 and 49 CFR § 192.603, which have been effective since 1970, require that all records regarding MAOP determination must be kept for the useful life of the pipeline.[40]

The Department concluded that Xcel Energy should not be afforded the opportunity to earn a profit for doing less than the 1970 law required; to do otherwise would not be in the public interest. Therefore, the Department recommended that the Commission limit the "return on" any approved recovery of MAOP remediation capital costs to no more than the Company's weighted debt cost rate over the life of these capital expenditures. The Department argued that the recommendation is reasonable because it allows Xcel Energy to recover the expenditures made to comply with MAOP substantiation requirements; although ratepayers will still restore to the Company the cost outlays made to rectify data gaps, this action will not enrich Xcel Energy for not meeting its responsibility to retain and keep system records in order.

### c. Xcel Energy Reply Comments

Xcel Energy argued that the rules governing MAOP documentation are relatively new and are significantly more stringent than the rules established in 1970 and the Company could not have

[38] Docket No. G-002/M-17-787.

[39] *In the Matter of the Petition of Northern States Power Company, d/b/a Xcel Energy, for Approval of a Gas Utility Infrastructure Cost Rider True-up Report for 2017, Forecasted 2018 Revenue Requirement and Revised Adjustment Factors,* Docket No. G-002/M-17-787, Order Approving Rider with Modifications at 8, 12 (August 12, 2019).

[40] Department *Comments* at Attachment 9, p. 3 (MAOP § 192.619 letter from the PHMSA).

reasonably anticipated these new requirements. The Company noted that unlike the new requirements established in 2012, the 1970 rules did not require that documentation be traceable, verifiable, and complete.

Specifically, Xcel Energy stated:

> The rules that govern MAOP documentation have emerged only within the last few years. These new requirements are significantly more stringent than the rules that were in place when the vast majority of our system was constructed, and the Company could not have reasonably anticipated these new requirements decades before they were adopted. The Company has always maintained appropriate documentation for its system based on the requirements established in 1970. Those 1970 requirements did not require that documentation be traceable, verifiable, and complete (TVC). The Pipeline and Hazardous Materials Safety Administration (PHMSA) issued guidance in 2012, which requires MAOP records to be TVC. PHMSA considers validation of MAOP for gas transmission pipelines based on the new TVC criteria it established in 2012 as sufficiently extraordinary to be the subject of a MAOP Remediation Advisory Bulletin as well as a subject of a new rule proposed by the PHMSA in April 2016, entitled Pipeline Safety: Safety of Gas Transmission and Gathering Pipelines (Proposed Pipeline Safety Rule). Moreover, they are critical requirements put in place by PHMSA, and the costs incurred to meet these requirements are specifically considered in the GUIC Statute.[41]

### d. Department Response Comments

The Department reiterated that having substantiated, objective MAOP records is fundamental to safe pipeline operations, protecting not only the liability of the utility and its operators, but the safety of those located near the pipeline infrastructure. In addition, MAOP record retention and substantiation has been a requirement of pipeline operators since 1970; the Department concluded that because these requirements have been in place since 1970, it would seem that unless the Company has not conducted tests on its pre-1970 installed pipelines, the Company should have MAOP supporting records.[42]

The Department maintained its conclusion that inadequate data records is concerning, especially given that data records were and continue to be within the control and responsibility of Xcel Energy's management. Consequently, the Company should be held accountable for its responsibility to substantiate by objective data records that its pipelines are operated within safe operating pressures.

The Department also maintained its conclusion that Xcel Energy should not be afforded the opportunity to earn a profit for doing less than the 1970 law and reasonable business practices

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[41] Xcel Energy *Reply Comments* at 13.

[42] Department *Comments* at 23-24.

required; to do otherwise would not be in the public interest. Therefore, the Department continues to recommend that the Commission limit the "return on" any approved recovery of MAOP remediation capital costs to no more than the Company's weighted debt cost rate over the life of these capital expenditures. The Department argued that this recommendation is reasonable because it allows Xcel Energy to recover expenditures to comply with requirements that have been in place since 1970; although ratepayers will still restore to Xcel Energy these cost outlays made to rectify the Company's inappropriate data gaps, this action will not enrich the Company for lacking in its responsibility to retain and keep system records in order.

#### e. Xcel Energy Reply to Response Comments

Xcel Energy argues that it has maintained appropriate documentation for its system based on the requirements established in 1970. Those 1970 requirements did not require that documentation be traceable, verifiable, and complete. Further, the Company notes that 40 percent of its gas transmission pipelines were installed prior to 1970, at a time when federal code that established record keeping requirements did not exist.[43]

Xcel Energy notes that the MAOP of pipelines installed prior to the enactment of Federal pipeline safety rules in 1970 could be established based on historical operating pressures prior to 1970. The new MAOP requirements call to retroactively remove the ability to have MAOP established by historical operating pressure as well as eliminate the possibility of data quality and data translation errors causing inaccuracies in MAOP documentation.[44]

#### f. Staff Analysis

PHMSA Advisory Bulletin ADB-2012-06 requires utilities to verify MAOP records. Specifically, the records must be traceable, verifiable, and complete. ADB-2012-06 specifically defines those terms, as follows:[45]

> Traceable records are those which can be clearly linked to original information about a pipeline segment or facility. Traceable records might include pipe mill records, purchase requisition, or as built documentation indicating minimum pipe yield strength, seam type, wall thickness and diameter. Careful attention should be given to records transcribed from original documents as they may contain errors. Information from a transcribed document, in many cases, should be verified with complementary or supporting documents.
>
> Verifiable records are those in which information is confirmed by other complementary, but separate, documentation. Verifiable records might include contract specifications for a pressure test of a line segment complemented by pressure charts or field logs. Another example might include a purchase order to

[43] Xcel Energy *Reply to Response Comments* at 5.

[44] *Id*. at 6.

[45] ADB-2012-06, 77 FR 26823

a pipe mill with pipe specifications verified by a metallurgical test of a coupon pulled from the same pipe segment. In general, the only acceptable use of an affidavit would be as a complementary document, prepared and signed at the time of the test or inspection by an individual who would have reason to be familiar with the test or inspection.

Complete records are those in which the record is finalized as evidenced by a signature, date or other appropriate marking. For example, a complete pressure testing record should identify a specific segment of pipe, who conducted the test, the duration of the test, the test medium, temperatures, accurate pressure readings, and elevation information as applicable. An incomplete record might reflect that the pressure test was initiated, failed and restarted without conclusive indication of a successful test. A record that cannot be specifically linked to an individual pipe segment is not a complete record for that segment. Incomplete or partial records are not an adequate basis for establishing MAOP or MOP. If records are unknown or unknowable, a more conservative approach is indicated.

The Department argued that Xcel Energy has an obligation to maintain MAOP validation records for pipeline installed subsequent to 1970. Therefore, the Department believes PHMSA Advisory Bulletin ADB-2012-06 should be considered as a new reporting requirement for information the Company otherwise should possess. Xcel Energy, however, believes that the specific traceable, verifiable, and complete requirements of PHMSA Advisory Bulletin ADB-2012-06 are more stringent than the record keeping requirements of 49 CFR § 192.619, and therefore, the costs associated with the more stringent requirements or a governmental or regulatory body should be recoverable through the GUIC rider.

As noted above, the Commission considered this issue in the 17-787 Docket and determined through its August 12, 2019 *Order* that Xcel Energy's request for cost recovery of MAOP remediation be denied and instead limited the return ***on*** MAOP validation costs to the Company's cost of long-term debt.[46]

### g. Decision Alternatives

11. Determine that Xcel Energy has demonstrated MAOP validation costs and costs related to data gaps are prudently incurred and authorize the Company to recover the costs in full. [Xcel Energy]

12. Determine that the "return on" the capital costs incurred to remediate the system's MAOP data gaps, shall be limited to Xcel Energy's weighted long-term cost of debt. [Department]

[46] *In the Matter of the Petition of Northern States Power Company, d/b/a Xcel Energy, for Approval of a Gas Utility Infrastructure Cost Rider True-up Report for 2017, Forecasted 2018 Revenue Requirement and Revised Adjustment Factors,* Docket No. G-002/M-17-787, Order Approving Rider with Modifications at 8, 12 (August 12, 2019).

## 5. Internal Capitalized Costs

### a. Background

The Department reviewed the capital and O&M costs included for recovery in Xcel Energy's GUIC and concluded that ratepayers were already paying a representative amount of these costs through base rates and therefore recommended that $8,157,695 in actual GUIC internal capital costs for Overheads, Transportation, and Other should be excluded from the GUIC.

This issue was previously addressed by the Commission in Xcel Energy's most recent GUIC petition however, due to the extended comment period and regulatory review a Commission Order was not issued prior to the filing of the instant *Petition*.[47] In an order dated August 12, 2019, the Commission disallowed the recovery of Overhead, Other, and Transportation costs totaling approximately $6.3 million in the GUIC rider.[48]

### b. Department Comments

The Department noted that the Commission has generally not allowed recovery of internal capitalized costs outside of rate cases, to avoid double-recovery of said costs.[49] A primary

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[47] Docket No. G-002/M-17-787.

[48] *In the Matter of the Petition of Northern States Power Company, d/b/a Xcel Energy, for Approval of a Gas Utility Infrastructure Cost Rider True-up Report for 2017, Forecasted 2018 Revenue Requirement and Revised Adjustment Factors,* Docket No. G-002/M-17-787, Order Approving Rider with Modifications at 10, 12 (August 12, 2019).

[49] The Department included a discussion of internal capitalized costs from Xcel Energy's most recent GUIC petition. Contained in those comments was a footnote containing a series of Orders where the Commission had disallowed recovery of internal capitalized costs outside of a rate case. The footnote is replicated below for ease of reference:

- *In the Matter of Otter Tail Power Company's Request for Approval of its 2010 Renewable Resource Cost Recovery Adjustment Factor*, Docket No. E-017/M-09-1484, in its Order dated August 27, 2010, the Commission denied Otter Tail Power Company's request to include capitalized labor and internal costs, subject to future true-up if the Commission determined in Otter Tail's then-pending rate case, Docket No. E-017/GR-10-239, that the amount should be included.
- *In the Matter of Xcel Energy's Petition for Approval of Two Proposed Energy Innovation Corridor Projects in the Central Corridor Utility Zone and Deferred Accounting Treatment for Costs Incurred After January 1, 2010*, Docket No. E-002/M-09-1488, the Commission decided not to determine cost recovery in the rider, sending those issues to Xcel Energy's then-pending rate case, Docket, No. E-002/GR-10-971.
- In the Matter of Minnesota Power's Petition for Approval of its Transmission Cost Recovery Rider, Docket No. E-015/M-10-799, the Commission's May 11, 2011 Order required Minnesota Power to exclude internal costs from the rider.
- *In the Matter of Minnesota Power's Petition for Approval of its 2011 Transmission Cost Recovery Rider Factor*, Docket No. E-015/M-11-695, the Commission's May 11, 2011 Order required Minnesota Power to exclude internal costs from the rider. The Commission's

concern is that a utility could expense its employee internal labor in a rate case, then later capitalize that same labor in a rider, thus charging ratepayers for those same internal labor costs twice. In base rates, the utility would earn a return ***of*** this labor as an operating expense; in the rider, the utility would earn both a return ***of*** this labor as a depreciation expense and a return ***on*** this labor through a return on rate base. Thus, the Commission should disallow recovery of internal capitalized costs in this proceeding.

### c. Xcel Energy Reply Comments

Xcel Energy argued that the overhead, other, and transportation costs included in the instant *Petition* are legitimate costs for Minnesota GUIC Rider-related projects. The Company stated the overhead costs included in the petition are assigned to projects based on an overhead pool allocation process, which has been in effect since at least 1980. These costs are not reflected as normal O&M costs as a part of its budgets in a rate case and would not have been reflected as such in the last rate case. Rather they are capital costs that are allocated to open construction projects during the time period. Overhead costs included in Xcel Energy's 2010 base rates would have been allocated to capital projects under construction in 2010. Once those construction projects are complete, they no longer receive overhead allocation costs. GUIC projects were not considered when the Company's current base rates were established. As such, legitimate costs related to Xcel Energy's GUIC Rider projects, like the ones in dispute here, are by definition outside of the scope of current base rates. The Company maintains its position and disagrees with the Department's recommendation to remove $8.2 million in capital charges, exclusive of the internal labor amount which does not require an adjustment.

### d. Department Response Comments

The Department continues to recommend that the Commission require Xcel Energy to remove costs of Overhead, Other, and Transportation, totaling $8,157,695, from the GUIC Rider, to the extent that these costs are not already removed through other adjustments.

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subsequent November 12, 2013 Order required Minnesota Power to "continue to exclude internal capitalized costs" from riders.

- *In the Matter of Xcel Energy's Petition for Approval of 2012 Transmission Cost Recovery (TCR), Project Eligibility, TCR Rate Factors, and 2011 True-up*, Docket No. E-002/M-12-50, the Commission's February 7, 2014 Order required Xcel Energy to removed capitalized costs from the rider.
- *In the Matter of Otter Tail Power Company's Request for Approval of a Transmission Cost Recovery Rider Including the Proposed Transmission Factor for the Recovery Period from May 2, 2013 to April 30, 2014, Docket No. E-017/M-13-103, the Commission's March 10, 2014 Order required Otter Tail Power to exclude internal costs.*

### e. Xcel Energy Reply to Response Comments

Xcel Energy reiterated its argument that inclusion of Overhead, Other, and Transportation costs is reasonable and recoverable through the GUIC Rider mechanism. Specifically, Xcel Energy repeated its argument that overhead costs are assigned to projects based on an overhead pool allocation process and are not reflected as normal operations and maintenance costs. Xcel Energy argues that the overhead costs in the Company's last rate case were considered capital costs and were allocated only to open construction projects during the time period. No GUIC Rider projects were in consideration when the Company's current base rates was established. As such, overhead costs assigned to GUIC Rider projects are by definition outside of the scope of current base rates.[50]

For additional support Xcel Energy noted that actual overhead costs have grown steadily since its last gas utility general rate case. In the test year for its most recent general rate case, Xcel Energy applied approximately $7.8 million in overhead costs to capital projects. The Company pointed out that none of these costs were applied to GUIC Rider projects as GUIC work had not yet been considered. For 2018, Xcel Energy applied approximately $17.0 million of overhead costs to all capital projects. Of this total, $8.0 million was applied to GUIC Rider projects. The remaining $9.0 million was applied to non-GUIC Rider projects.[51]

Xcel Energy noted that the amount of overhead in current gas utility base rates covers only a portion of the overhead costs applied to current non-GUIC work. Any overheads applied to current GUIC work are truly incremental to costs included in our current base rates. As such, Xcel Energy continues to support its position that costs such as overheads, other, and transportation should be recovered through GUIC Rider revenue requirement requests.

### f. Staff Analysis

Effectively, Xcel Energy is seeking approval of an allocation methodology in order to recover the portion of Overhead, Other, and Transportation costs it attributes to GUIC projects.[52]

> Overhead costs are assigned to projects based on an overhead pool allocation process and are not reflected as normal operations and maintenance costs.

Stated differently, Xcel Energy has an overall budget for overheads, other, and transportation that is allocated between GUIC and non-GUIC projects. The Company argues that the recovery amount set in base rates covers only a portion of the non-GUIC projects and, therefore, any amounts Xcel Energy allocates to GUIC work should be considered incremental.

The GUIC Statute defines GUIC costs as being "costs incurred in gas utility ***projects***" [Staff emphasis]. The applicable Merriam-Webster definition of the word "project" defines a project

[50] Xcel Energy *Reply to Response Comments* at 6.

[51] *Id*.

[52] Xcel Energy *Reply to Response Comments*, at 6.

as being "a planned undertaking." Although the GUIC Statute does not specifically disallow the allocation of overhead, other, and transportation to be done between GUIC and non-GUIC projects, the GUIC Statute specifically provides an avenue of expedited recovery of incremental expenses as it relates to specific projects as defined in the Statute as opposed to recovering generalized increases in expenses.

The fact that non-GUIC allocated overhead, other, and transportation costs exceed its base rate recovery amount is an expected result given the time that has elapsed since Xcel Energy's last rate case. As a simple example, in 2010 the minimum wage in Minnesota was $7.25/hr today, that minimum wage is $9.86/hr. Utility costs generally rise over time due to the impacts of inflation; Xcel Energy recovering the overhead, other, and transportation expenses based on a 2010 test year and falling short of the expense it incurs today is not surprising. However, the remedy for utilities to revisit and adjust base rates is typically a general rate case. Allocating additional recovery for costs already represented in base rates simply because the Company is not recovering its current expenses based on a rate case that was initiated almost ten years ago could have the effect of continuing to keep Xcel Energy out of a rate case where expenses, such as overhead, other, and transportation, are more-heavily and holistically scrutinized.

Also, as noted above, the Commission previously denied the recovery of Overhead, Other, and Transportation costs in its August 12, 2019, Order in the 17-787 Docket.

#### g. Decision Alternatives

13. Allow Xcel Energy cost recovery of Overhead, Other, and Transportation, totaling $8,157,695 in the GUIC Rider. (Xcel Energy)

14. Require Xcel Energy to remove the costs of Overhead, Other, and Transportation, totaling $8,157,695, from the GUIC Rider. (Department)

## C. Disputed Issues – New Issues

### 1. Rate of Return

#### a. Background

Minn. Stat. § 216B.1635, subdivision (subd.) 6. *Rate of return*. states:

> The return on investment for the rate adjustment shall be at the level approved by the commission in the public utility's last general rate case, unless the commission determines that a different rate of return is in the public interest.

In its January 27, 2015, *Order*, in the 14-336 Docket the Commission discussed the issue of the appropriate cost of capital for the GUIC projects. In its *Order*, the Commission found that updating the cost of debt for GUIC investments was consistent with the public interest. In addition, the Commission stated that the ROE was likely lower than what was authorized in Xcel Energy's last natural gas rate case; however, the record in the 14-336 Docket did not provide a basis of support for the Commission to adjust the ROE at that time. Updating Xcel's cost of debt resulted in a rate of return of 7.56 percent in the 14-336 Docket.

The Commission *Order* stated:

> In future GUIC filings the Commission will expect to see information on Xcel's current capital structure, cost of debt, and cost of equity. To that end, the Commission will require Xcel, 60 days in advance of its next annual GUIC filing, to submit information on what it believes the appropriate rate of return should be for the coming year. Based on this information, the parties can recommend, and the Commission can set, an updated rate of return for the GUIC rider if appropriate.

In OP 9 of its August 18, 2016, *Order*, in the 15-808 Docket, the Commission approved a capital structure of 52.50 percent equity, 45.61 percent long-term debt, and 1.89 percent short-term debt. In OP 10, the Commission approved an ROE of 9.64 percent, a cost of long-term debt of 4.94 percent, a cost of short-term debt of 1.12 percent and an overall ROR of 7.34 percent.

In OP 2 of its February 8, 2018, *Order*, in the 16-891 Docket, the Commission approved the same capital structure, cost of long-term debt and cost of short-term debt as the Commission approved in the 15-808 Docket, in addition, the Commission approved a 9.04 percent cost of common equity (ROE) which resulted in an overall authorized rate of return of 7.02 percent.

In OP 2 of its August 12, 2019, *Order*, in the 17-787 Docket, the Commission continued the capital structure, cost of long-term, cost of short-term debt, and ROE approved in the 16-891 Docket.

In the current *Petition*, Xcel Energy proposed to update the capital structure, cost of debt, and cost of equity used to determine the appropriate cost of capital for GUIC Rider projects. Specifically, the Company proposed to use the Commission approved cost of capital from Xcel Energy's last electric rate case.[53] Table 4 below, shows the Company's proposed capital structure.

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[53] *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, and Order (June 21, 2017) at 11.

| | Capital Structure for 2019 from Xcel Energy's most recent rate case | | |
|---|---|---|---|
| | Rate | Ratio | Wtd. Cost |
| Short-Term Debt | 4.31% | 1.69% | 0.07% |
| Long-Term Debt | 4.75% | 45.81% | 2.18% |
| Common Equity | 9.20% | 52.50% | 4.83% |
| Total | | | 7.08% |

**Table 4: Xcel Energy's Proposed Cost of Capital**

| | Capital Structure | Cost | Weighted Cost |
|---|---|---|---|
| Long-term Debt | 45.81% | 4.75% | 2.18% |
| Short-term Debt | 1.69% | 4.31% | 0.07% |
| Common Equity | 52.50% | **10.25%** | 5.38% |
| **Rate of Return** | **100.00%** | | **7.63%** |

The Department and OAG responded to the Company's proposal and provided their own recommendations, as discussed below.

#### b. Department Comments

The Department concluded that keeping the 2019 GUIC ROR at the approved 2017 levels is a more efficient use of regulatory resources, is consistent with the GUIC statute, and allows for consistency with other riders and within the GUIC. The Department noted that it does not have the resources to conduct a full rate of return analyses on each yearly rider proposed by each utility, nor does the GUIC statute require such an analysis. Finally, the Department concluded that the Company had not demonstrated how changing the ROR from the level set by the Commission for Xcel's 2017 GUIC would be in the public interest.

Therefore, the Department recommended that the Company maintain the ROR and capital structure at the levels approved in the 2017 GUIC Rider.[54]

#### c. OAG Comments

The OAG recommended that the Commission set the return at 4.75 percent, based on Xcel Energy's long-term cost of debt awarded in its most recent electric rate case.[55] The OAG argued that Xcel Energy's long-term cost of debt more reasonably matches the risk the Company faces in its rider petitions.

The OAG argued that the risk of investments recovered through riders is lower than the risk of investments recovered through base rates. In a traditional rate case, investments are placed into rate base and recovered through base rates. Cash flows related to those investments are incorporated into the utility's revenue requirement only after a utility files a rate case. Assuming that the investments are allowed into rate base (and thus incorporated into base rates), the cash flows related to these investments are not guaranteed and fluctuate from year to year. Cash flow deviation (either under- or over-recovery) is an expected and well-understood part of utility ratemaking. Any deviation is generally not trued-up annually, which

[54] Department *Comments* at 14.

[55] *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, and Order at 11.

means that there may be significant volatility in when, and how much, cash flow is received from year-to-year.

In comparison, the revenue requirement for rider investments is fully trued-up each year. While it is likely that utilities will over- or under-recover rider investments month-to-month, on an annual basis the OAG argued that there is zero risk of under-recovery because of the true-up mechanism. While investors receive no guarantees of recovery for investments recovered in base rates, investors are guaranteed a full recovery of rider investments. The only real risk is that of a temporary under-collection that will be corrected in no more than one year. This stands in stark contrast to investments that may only be recovered in base rates.

The OAG noted that natural gas utilities have two choices when deciding how to address infrastructure investment: (1) file general rate cases or (2) file capital cost recovery riders. Across the state, some utilities have opted to file more frequent rate cases whereas Xcel Energy has opted to file a succession of GUIC rider filings.

In support for its position, the OAG discussed decisions from the Iowa Utilities Board (IUB) where the IUB determined that allowing utilities to earn a return at their cost of debt is appropriate for capital investments recovered through automatic adjustment riders.[56] Iowa's decision was based on its conclusion that "allowing utilities to earn a return of their investment as well as a return on their investment equal to the cost of debt significantly reduces the effects of regulatory lag and provides substantial incentive to utilities to move forward with implementation of such safety-related projects."[57] For the same reason, granting Xcel Energy a return for GUIC projects based on its cost of long-term debt mitigates the utility's incentive to avoid rate cases, while still providing it with an incentive to move forward with critical safety-related projects.[58]

For the reasons discussed above, the OAG recommended that the Commission balance the interest of ratepayers with the utility by following IUB's approach and adopt a rate of return for Xcel Energy's current GUIC rider at the Company's long-term cost of debt.

### d. Xcel Energy Reply Comments

Xcel Energy maintains that the proposed ROR of 7.63 percent and an ROE of 10.25 percent ROE is reasonable, consistent with the statute and comparable proxy groups, and within the range required by equity investors to invest in utilities similar to the Company under current capital market conditions.

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[56] See OAG 2018 GUIC Comments at 14, *citing In Re: Black Hills/Iowa Gas Utility Company, L.L.C. d/b/a Black Hills Energy*, Iowa Util. Board Docket No. SPU-2015-0039, TF-2015-0352, FINAL DECISION AND ORDER (Apr. 20, 2017).

[57] See OAG 2018 GUIC Comments at 14, *citing In Re: Black Hills/Iowa Gas Utility Company, L.L.C. d/b/a Black Hills Energy,* Iowa Util. Board Docket No. SPU-2015-0039, TF-2015-0352, FINAL DECISION AND ORDER at 21 (Apr. 20, 2017).

[58] OAG *Comments* at 5.

Xcel Energy opposes the Department's recommendation to maintain the overall rate of return that was approved in the 2017 GUIC Rider proceeding. The Company notes that the Department's position is contrary to the Commission's February 8, 2018 Order in Docket No. G002/M-16-891, in which the Commission stated that it "continues to believe that the public interest is served by setting the GUIC rate of return based on the most up- to-date information available."[59]

In addition, the Company argued that the OAG's position is not consistent with how the Company finances projects included in the GUIC Rider. GUIC projects involve a mixture of equity and debt capital and therefore it is not reasonable to set the Company's ROE for the GUIC Rider based on long-term debt costs when the Company is using both equity and debt to finance GUIC projects.

Finally, Xcel Energy noted that the GUIC statute establishes that, for GUIC projects, the appropriate return should be set at the ROE allowed in the Company's last general rate case, unless the Commission determines that a different rate of return is in the public interest. In the Company's 2017 GUIC Rider filing the Commission determined that the appropriate ROE should be set at 9.04 percent, which resulted in an ROR of 7.02 percent.[60]

**e. Department Response Comments**

The Department reiterated its position that the Commission should maintain the current ROE of 9.04 percent and "an overall rate of return of 7.02 percent, consistent with Xcel Energy's 2017 and 2018 GUIC Riders."[61]

**f. Xcel Energy Reply to Response Comments**

Xcel Energy continues to support its position that an ROR of 7.63 percent and a return on equity of 10.25 percent—is reasonable, consistent with the statute and comparable proxy groups, and within the range required by equity investors to invest in utilities similar to the Company under current capital market conditions.[62]

**g. Staff Analysis**

Xcel Energy put forth a full cost of capital analysis similar to what would be done for a general rate case. The Department and OAG did not. Staff notes that the Commission has a different statutory directive and starting point in this proceeding than in a rate case. Staff thinks it is important to start from the directive in the statute applicable to this proceeding which states "the return on investment for the rate adjustment shall be at the level approved by the

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[59] Xcel Energy *Reply Comments* at 4.

[60] Docket No. G-002/M-16-891.

[61] Department *Response Comments* at 3.

[62] Xcel Energy's *Reply to Response Comments* at 8.

commission in the public utility's last general rate case, unless the commission determines that a different rate of return is in the public interest."

No party is recommending that the return on investment (ROR or weighted average cost of capital) from the last natural gas rate case, 8.28 percent, be used in this docket. In the 14-336 Docket, the Commission found a different return on investment, 7.56 percent, to be more appropriate. That return was based on the cost of equity of 10.09 percent from Xcel Energy's last natural gas rate case (Docket No. G-002/GR-09-1153), combined with the capital structure and cost of debt from Xcel Energy's last electric rate case (Docket No. E-002/GR-13-868). In the 16-891 Docket, the Commission approved an updated ROE of 9.04 percent, combined with the capital structure and cost of debt from the Company's last electric rate case, result in a rate of return of 7.02 percent. In Xcel Energy's most recent GUIC proceeding, the 17-787 Docket, the Commission chose to maintain the ROE or rate of return from what was approved in the 16-891 Docket. Although the Statute allows for application of the return on investment from the last rate case, parties have not discussed that option, instead, the discussions started from the ROR approved in the 16-891 Docket, which had an overall ROR of 7.02 percent.

The parties agree that the Commission could determine that a different rate of return is in the public interest. However, they do not agree on how that rate should be determined and what the rate should be. For clarification, the tables below provide a history of how the GUIC cost of capital has progressed over past few years:

**Table 5: Rate of Return Based on 09-1153**
**(Xcel Energy's last natural gas rate case)**

| | Capital Structure | Cost | Weighted Cost |
|---|---|---|---|
| Long-term Debt | 46.74% | 6.36% | 2.973% |
| Short-term Debt | 0.80% | 1.36% | 0.011% |
| Common Equity | 52.46% | 10.09% | 5.293% |
| **Rate of Return** | **100.00%** | | **8.277%** |

**Table 6: Rate of Return Authorized in 14-336**
**(Xcel Energy's 1st year of the GUIC rider)**

| | Capital Structure | Cost | Weighted Cost |
|---|---|---|---|
| Long-term Debt | 45.61% | 4.94% | 2.249% |
| Short-term Debt | 1.89% | 0.67% | 0.013% |
| Common Equity | 52.50% | 10.09% | 5.297% |
| **Rate of Return** | **100.00%** | | **7.559%** |

**Table 7: Rate of Return Authorized in 15-808**
**(Xcel Energy's 2nd year of the GUIC rider)**

| | Capital Structure | Cost | Weighted Cost |
|---|---|---|---|
| Long-term Debt | 45.61% | 4.94% | 2.25% |
| Short-term Debt | 1.89% | 1.12% | 0.02% |
| Common Equity | 52.50% | 9.64% | 5.06% |
| **Rate of Return** | **100.00%** | | **7.34%** |

**Table 8: Rate of Return Authorized in 16-891**
**(Xcel Energy's 3rd year of the GUIC rider)**

| | Capital Structure | Cost | Weighted Cost |
|---|---|---|---|
| Long-term Debt | 45.61% | 4.94% | 2.25% |
| Short-term Debt | 1.89% | 1.12% | 0.02% |
| Common Equity | 52.50% | 9.04% | 4.75% |
| **Rate of Return** | **100.00%** | | **7.02%** |

**Table 9: Rate of Return Authorized in 17-787**
**(Xcel Energy's 4th year of the GUIC rider)**

| | Capital Structure | Cost | Weighted Cost |
|---|---|---|---|
| Long-term Debt | 45.61% | 4.94% | 2.25% |
| Short-term Debt | 1.89% | 1.12% | 0.02% |
| Common Equity | 52.50% | 9.04% | 5.25% |
| **Rate of Return** | **100.00%** | | **7.02%** |

**Table 10: Xcel Energy - Proposed Rate of Return, this docket**
**(Updated with New Capital Structure, Cost of Debt and ROE)**

| | Capital Structure | Cost | Weighted Cost |
|---|---|---|---|
| Long-term Debt | 45.81% | 4.75% | 2.18% |
| Short-term Debt | 1.69% | 4.31% | 0.07% |
| Common Equity | 52.50% | **10.25%** | 5.38% |
| **Rate of Return** | **100.00%** | | **7.63%** |

**Table 11: Department - Proposed Rate of Return, this docket**
**(Based on 17-787 Decision)**

| | Capital Structure | Cost | Weighted Cost |
|---|---|---|---|
| Long-term Debt | 45.61% | 4.94% | 2.25% |
| Short-term Debt | 1.89% | 1.12% | 0.02% |
| Common Equity | 52.50% | **9.04%** | 4.75% |
| **Rate of Return** | **100.00%** | | **7.02%** |

**Table 12: OAG Proposed Rate of Return, this docket**
**(Updated with New Capital Structure, Cost of Debt and ROE)[64]**

| | Capital Structure | Cost | Weighted Cost |
|---|---|---|---|
| Long-term Debt | 45.81% | 4.75% | 2.18% |
| Short-term Debt | 1.69% | 4.31% | 0.07% |
| Common Equity | 52.50% | **4.76%** | 2.50% |
| **Rate of Return** | **100.00%** | | **4.75%** |

When determining an appropriate ROE, the Commission may want to consider its overall decision in this proceeding, including cost recovery, and how its decision differs from that in a rate case proceeding. The ROE authorized in a rate case is not guaranteed, rather it is a cost used to establish rates and is at risk. If a company underperforms, its ROE will suffer.

Depending on the Commission's decision in this proceeding, the ROE may be guaranteed. Minn. Stat. 216B.1635, subd. 4 allows a "rate schedule for the automatic annual adjustment of charges for gas utility infrastructure costs" that include a "rate of return, income taxes on the rate of return." As further noted in subd. 4, this is a petition for approval of a rate schedule to recover costs outside of a general rate case. Depending on the rate schedule approved and the interpretation of whether there is a true-up for those costs, the authorized return may not be at risk. In such a situation, because the ROE is not at risk, the ROE should be lower to reflect the lower risk.

The Commission may want to consider its own ROE decisions in recent natural gas rate cases in its evaluation of Xcel Energy's request in this proceeding.

**Table 13: Authorized ROE for recent Natural Gas Rate Case Decisions**

| | Date Filed | Test-Year | Main Order Date | Authorized ROE |
|---|---|---|---|---|
| CenterPoint Energy<br>Docket No. G-008/GR-17-285 | Aug. 2, 2017 | FY 2018 | Jul. 20, 2018 | 9.21%[65] |
| Minnesota Energy Resources<br>Docket No. G-011/GR-17-563 | Oct. 13, 2017 | CY 2018 | Dec. 26, 2018 | 9.70% |

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[64] The OAG's proposal did not contain a recommended capital structure or recommended ROE. However, on page 6 of its *Comments* the OAG stated the Commission "should establish a return of 4.75 percent, based on Xcel's long-term cost of debt awarded in its 2016 electric rate case." Thus, Staff uses the Commission approved capital structure from Xcel Energy's most recent general rate case (Docket No. E-002/GR-15-826) to calculate the necessary ROE to arrive at the OAG's recommended 4.75 percent ROR. The table is Staff's attempt at structuring the OAG's recommendation into a format similar to that put forth by the Department and Xcel Energy and implies an ROE of 4.76 percent.

[65] Staff notes that the proceeding was the subject of a settlement where an authorized ROE was not litigated however, this figure was calculated based on the settled rate of return of 7.12 percent and the various cost of capital ratios.

The following table contains the ROEs the Commission has awarded over the most recent general rate cases involving electric utilities.

**Table 14: Authorized ROE for recent Electric Rate Case Decisions**

| | Date Filed | Test-Year | Main Order Date | Authorized ROE |
|---|---|---|---|---|
| Xcel Energy (multiyear rate plan) Docket No. E-002/GR-15-826 | Nov. 2, 2015 | 2016 - 2019 | Jun. 12, 2017 | 9.20% |
| Otter Tail Power Docket No. E-017/GR-15-1033 | Feb. 16, 2016 | 2016 | May 1, 2017 | 9.41% |
| Minnesota Power Docket No. E-015/GR-16-664 | Nov. 2, 2016 | 2017 | Mar. 12, 2018 | 9.25% |

Staff also notes that in its Annual Jurisdictional Reports (AJR) for Xcel Energy's gas utility has reported the following earned ROEs for 2015, 2016, 2017, and 2018.

**Table 15: ROE for Current Year Normalized for Weather (including CIP incentives)**

| | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|
| Xcel Energy-Gas | 11.04% | 9.47% | 9.85% | 10.53% |

Unlike the previous two GUIC Rider proceedings where only the ROE was in dispute, the Commission needs to determine whether to update the overall capital structure, long-term cost of debt, and short-term cost of debt to match what was approved in Xcel Energy's most recent electric general rate case[66] or maintain the current rates approved in Xcel Energy's most recent GUIC Rider proceeding.[67] As for the ROE, the Commission has to determine whether to maintain the current Commission approved ROE or update pursuant to either Xcel Energy or the OAG's comments.

### h. Decision Alternatives

15. Approve Xcel Energy's proposed capital structure and cost of debt for this rider with a return on equity (ROE) of 10.25 percent and a rate of return (ROR) of 7.63 percent. [Xcel Energy]

**Xcel Energy - Proposed Rate of Return, this docket**

| | **Capital Structure** | **Cost** | **Weighted Cost** |
|---|---|---|---|
| Long-term Debt | 45.81% | 4.75% | 2.18% |
| Short-term Debt | 1.69% | 4.31% | 0.07% |
| Common Equity | 52.50% | **10.25%** | 5.38% |
| **Rate of Return** | **100.00%** | | **7.63%** |

66 Docket No. E-002/GR-15-826.

67 Docket No. G-002/M-17-787.

16. Approve the Department's capital structure and cost of debt with an ROE of 9.04 percent and an ROR of 7.02 percent. [Department]

**Department - Proposed Rate of Return, this docket**
**(Based on 17-787 Decision)**

| | Capital Structure | Cost | Weighted Cost |
|---|---|---|---|
| Long-term Debt | 45.61% | 4.94% | 2.25% |
| Short-term Debt | 1.89% | 1.12% | 0.02% |
| Common Equity | 52.50% | **9.04%** | 4.75% |
| **Rate of Return** | **100.00%** | | **7.02%** |

17. Approve Xcel Energy's proposed capital structure and cost of debt with an ROE of 9.04 percent and an ROR of 7.00 percent. [68] [Department Alternate]

**Department Alternate - Proposed Rate of Return, this docket**

| | Capital Structure | Cost | Weighted Cost |
|---|---|---|---|
| Long-term Debt | 45.81% | 4.75% | 2.18% |
| Short-term Debt | 1.69% | 4.31% | 0.07% |
| Common Equity | 52.50% | **9.04%** | 4.75% |
| **Rate of Return** | **100.00%** | | **7.00%** |

18. Approve Xcel Energy's proposed capital structure and cost of debt for this rider with OAG's recommended ROR of 4.75 percent and an ROE of 4.76 percent. [OAG]

**OAG Proposed Rate of Return, this docket**

| | Capital Structure | Cost | Weighted Cost |
|---|---|---|---|
| Long-term Debt | 45.81% | 4.75% | 2.18% |
| Short-term Debt | 1.69% | 4.31% | 0.07% |
| Common Equity | 52.50% | **4.76%** | 2.50% |
| **Rate of Return** | **100.00%** | | **4.75%** |

[68] On August 29, 2019, staff received a voicemail from the Department stating that although the Department continues to recommend maintaining the capital structure, cost of debt, and return on equity that the Commission approved in the 17-787 Docket it would not oppose Xcel Energy's request to update the capital structure and cost of debt to match Xcel Energy's last electric rate case (Docket No. E-002/GR-15-826).

## 2. Sewer and Natural Gas Line Conflict Rider Recovery Amount

### a. Background

Xcel Energy began its Sewer and Gas Line Conflict Investigation program in 2010, inspecting sewer laterals and mains for conflicts, and anticipated it to be a 10-year program.[69] The Company included in the proposed 2019 GUIC revenue requirements $2.15 million in O&M expenses for current year sewer and natural gas line conflict inspections program work.[70] In addition, the amortized portion of this program's deferred costs included in the 2019 GUIC revenue requirement is approximately $3.7 million.[71]

### b. Department Comments

The Department noted that Xcel Energy's 2010 petition requesting deferred accounting treatment for its sewer/gas line inspection work estimated that $50,000 was included in its 2010 test year distribution O&M budget for "performing sewer investigations in response to customer and/or contractor requests."[72]

In the course of its review, the Department learned that the Company did not include any adjustments to its current or prior GUIC revenue requirement for costs included in its base rates for sewer inspection work; therefore, the Department concluded that Xcel Energy failed to exclude the $50,000 already included in existing rate base and was double recovering these O&M expenses.

Consequently, the Department recommended that Xcel Energy reduce its 2019 GUIC Rider revenue requirement by $50,000 to account for the cost of sewer inspection work included in its current base rates, and continue such an adjustment in its prospective GUIC petitions corresponding to the amount included in base rates. Further, the Department stated that if Xcel Energy, in its Reply Comments, cannot provide verifiable support that its Docket 10-422 deferred Sewer and Gas Line Inspection Plan cost amount (now being amortized) excluded costs for the sewer conflict investigation costs incurred as part of its daily operations, the Department may have additional adjustments.

### c. Xcel Energy Reply Comments

Xcel Energy agreed with the Department's assessment and reduced its 2019 GUIC revenue requirement by $50,000. In addition, the Company agreed to reduce future GUIC revenue requirements by $50,000 to account for the amount already being included in base rates. Xcel Energy's Reply Comments did not address the Department's statement asking for the Company to provide "verifiable support that its Docket 10-422 deferred Sewer and Gas Line Inspection

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[69] Xcel Energy Petition Attachment 3 at 8, Docket No. G-002/M-14-336.

[70] Xcel Energy *Petition* Attachment D at 3-9.

[71] *Id*. at Attachment K.

[72] Xcel Energy *Petition* at 5, Docket No. G-002/M-10-422.

Plan cost amount (now being amortized) excluded costs for the sewer conflict investigation costs incurred as part of its daily operations."[73]

### d. Department Response Comments

The Department's Initial Comments also stated there may be additional adjustments if Xcel's Reply Comments cannot provide verifiable support that the Docket 10-422 deferred costs, now being amortized, excluded costs for the sewer conflict investigation costs incurred as part of its daily operations. Xcel's Reply Comments did not respond to this statement. Therefore, the Department issued further discovery, DOC IR No. 53, to question whether any Emergency category costs were included in the Sewer and Gas Line Conflict Investigation program's deferred costs that are being amortized. Xcel Energy's response stated:

> The total deferred sewer and natural gas conflict costs recovered through the GUIC Rider includes $371,364 in costs attributed to Emergency category work.

Consistent with its initial comment position, the Department concluded that the Emergency category work activity should not have been treated as a deferred cost; therefore an additional adjustment is necessary. The Department referred to Xcel Energy's deferred accounting request for its Sewer and Natural Gas Line Conflict plan, docket 10-422, the Company committed to segregate its Plan/Program costs to be deferred from these "normal conflict investigation costs incurred as part of our daily operations." Because 2019 is the final year of the five-year amortization of docket 10-422 deferred costs, the Department recommended that the 2019 GUIC revenue requirement be reduced by the total of Emergency category work activity costs that were included in the nearly $19 million total deferred sum for sewer inspection costs.

In sum, the Department recommended that Xcel Energy reduce its 2019 GUIC Rider revenue requirement by removing the costs included for Emergency inspections work activity, that is, "performing sewer investigations in response to customer and/or contractor requests", which were considered and included in the establishment of its base rates and are part of Xcel Energy's normal daily operations.

The Department recommended two adjustments, one in the amount of $50,000 to reduce the GUIC Rider current year's sewer inspections cost recovery request that included costs of such work, an adjustment with which Xcel Energy agreed to in *Reply Comments*; and the second adjustment, a $371,364 reduction to revenue requirements to remove expenses that should not have been deferred.

### e. Xcel Energy Reply to Response Comments

In response, Xcel Energy stated that while it agreed that some adjustment is warranted to remove the amount that should have been excluded from the deferral, the Company concluded that the adjustment should be limited to $50,000 for each year that the accrual was built-up.

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[73] Department Comments at 16.

Xcel Energy argued that only $50,000 is included in its current base rates, and any costs above that amount should be considered incremental costs. As such, the Company agreed that a reduction of $250,000 ($50,000 x 5 year amortization period approved in Docket No. 10-422) from its revenue requirements is reasonable, and will remove this amount from its final 2019 GUIC Rider revenue requirement.

#### f. Decision Alternatives

19. Approve the reduction of 2019 GUIC revenue requirement by $50,000 to account for the cost of sewer inspection work included in its current base rates, and continue such an adjustment in its prospective GUIC petitions corresponding to the amount included in base rates. Department, Xcel Energy]

    and,

20. Approve an additional reduction of 2019 GUIC revenue requirement of $371,364 to remove previously deferred amounts that were erroneously included. [Department]

    or,

21. Approve an additional reduction of 2019 GUIC revenue requirement of $250,000 to remove previously deferred amounts that were erroneously included. [Xcel Energy]

### 3. True-Up of Actual GUIC Rider Costs

#### a. Background

Within its discussion of performance metrics, the Department made the statement that Xcel Energy should not be allowed to recover any cost overruns through the GUIC Rider. Instead, the Department argued that the Company should only be allowed to recover cost overruns through a general rate case. The Department asked Xcel Energy to provide a table, in *Reply Comments*, showing cost overruns for its 2017 GUIC Rider.

#### b. Department Comments

As noted above, the Department argued that the Company should only be allowed to recover cost overruns through a general rate case. The Department asked Xcel Energy to provide a table, in *Reply Comments*, showing cost overruns for its 2017 GUIC Rider.

Specifically, the Department stated:[74]

> Finally, consistent with the cost discipline used for other riders, Xcel should not be allowed to recover via the rider any cost overruns; instead, the Company should be allowed to recover such costs only in Xcel Gas's next rate case, and only if the Company demonstrates that it is reasonable to charge ratepayers for such cost

[74] Department *Comments* at 39.

overruns. The Department asks that in Reply Comments, the Company submit a table identifying all 2017 cost overruns for all 2017 GUIC programs, and identify and where these overruns may have been included for recovery through either the 2018 and 2019 GUIC Riders.

### c. Xcel Energy Reply Comments

In response, Xcel Energy argued that recovery of cost overruns through rider petitions is consistent with previous Commission Orders and "the recovery of projects - whether in base rates or through a rider - depends on the prudency of those costs rather than the accuracy of an initial forecast."[75] Specifically, the Company cited a 2014 Commission order where the Commission stated "cost overruns can be prudently incurred" and "Commission will therefore permit utilities to seek higher recovery levels in future proceedings, with proper documentation and explanation in their rider filings."[76]

Xcel Energy provided the requested table, reproduced below.

**Table 16: Xcel Energy 2017 Forecast and Actual Cost by GUIC Rider Program ($ Millions)**

| Program | 2017 Forecast | 2017 Actual | Variance |
|---|---|---|---|
| **TIMP** | | | |
| East Metro Pipeline Replacement | $0.60 | $0.61 | $0.01 |
| Transmission Pipeline Assessments | 1.40 | 0.94 | (0.46) |
| ASV/RCV | 0.17 | 0.24 | 0.07 |
| Programmatic Replacements/MAOP Remediation | 7.63 | 6.04 | (1.59) |
| **Total - TIMP** | **$9.80** | **$7.83** | **$(1.97)** |
| **DIMP** | | | |
| Poor Performing Main Replacements | $9.33 | $13.29 | $3.96 |
| Poor Performing Service Replacements | 5.52 | 3.47 | (2.05) |
| Intermediate Pressure Line Assessments | 0.73 | 0.15 | (0.58) |
| Distribution Valve Replacement Project | 0.31 | 0.34 | 0.03 |
| Federal Code Mitigation | 0.47 | 0.16 | (0.31) |
| Sewer & Gas Line Conflict Investigation | 3.43 | 3.28 | (0.15) |
| **Total – DIMP** | **$19.79** | **$20.69** | **0.90** |
| **Total – TIMP and DIMP** | **$29.59** | **$28.52** | **(1.07)** |

Xcel Energy explained that its total costs for all TIMP projects in 2017 were $7.83 million, compared to a forecast of $9.80 million. For all DIMP projects, total costs were $20.69 million, compared to a forecast of $19.79 million. Thus, for the GUIC as a whole, the total costs for

[75] Xcel Energy *Reply Comments* at 22.

[76] *In the Matter of the Application of ITC Midwest LLC for a Certificate of Need for the Minnesota-Iowa 345 kV Transmission Line Projects in Jackson, Martin, and Faribault Counties*, Docket No. ET-6675/CN-12-1053, at 6 (November 25, 2014).

2017 were $28.52 million, compared to a forecast of $29.59 million, which is $1.07 million less than forecasted.[77]

Xcel Energy noted that the DIMP *Poor Performing Main Replacement* program had actual results which were significantly higher than forecast. The Company explained that the increase was driven by two factors. Specifically Xcel Energy stated:[78]

> The first was that more main costs were incurred relative to service costs incurred as a result of home density differences between urban, suburban, and rural settings. Dollars originally budgeted as part of service costs were actually spent on main replacement activities. This can be seen when comparing our 2017 actual and forecasted costs for the DIMP poor performing services program, which had actual costs $2.05 million lower than forecasted. Second, the scope of final work varied significantly from original plans. This was the result of instances of construction under asphalt and concrete, larger diameter steel main, or a bore crossing the Mississippi River.

Xcel Energy noted that the scope of projects can change over the course of time which may result in additional costs and/or shifting expected costs from one program to another, as occurred with the DIMP *Poor Performing Services Replacement* program. The Company maintains that these costs were prudently incurred and no adjustment is necessary.

#### d. Department Response Comments

The Department argued that Xcel Energy's reference to the Commission's November 25, 2014 Order in Docket No. ET-6675/CN-12-1053 as evidence indicating that the Commission should allow utilities under its ratemaking authority to recover cost overruns in riders is not valid. Specifically, the Department argued that the proceeding involved ITC Midwest, a utility with rates that are subject to the Federal Energy Regulatory Commission (FERC), with no rate authority from the Commission. Therefore, the Department concluded that because the facts in the instant case are markedly different, attempting to use that case to justify allowing Xcel Energy to recover cost overruns in a rider is inappropriate.

As for the actual true up amounts, the Department argued:

> The Department's understanding is that currently, the 2017 actual costs are used to true-up any potential over- or under-recoveries from the Company's 2017 forecasted budgets. This circumstance means that, while the 2017 GUIC Rider would have recovered $9.80 million in forecasted TIMP costs and $19.79 million in forecasted DIMP costs, the 2018 or 2019 GUIC Rider will have adjustments of $(1.97) million in TIMP costs and $0.90 million in DIMP costs.

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[77] Staff notes that Xcel Energy stated the difference was $1.09 million but assumes that number was a typo since the table used $1.07 million which appears to be mathematically correct.

[78] Xcel Energy *Reply Comments* at 23.

> The Department supports the TIMP adjustment of $(1.97) million, as these were over- recovered costs that the Company never actually incurred. However, the Department does not support Xcel's proposal to recover in cost overruns of $0.90 million in 2017 DIMP costs. Xcel has a responsibility to keep costs low between rate cases, and the GUIC Rider should not be viewed as a mechanism whereby ratepayers are responsible for the Company's inability to stick to its budget.
>
> Therefore, the Department recommends that the Commission direct the Company to make an adjustment of $(1.97) [million] in TIMP costs to its 2019 GUIC Rider, and disallow an adjustment of $0.90 [million] in DIMP costs in its GUIC Rider, to the extent these adjustments were not captured in the 2018 GUIC Rider.

### e. Xcel Energy Reply to Response Comments

Xcel Energy disputes the Department's conclusion that the Order cited by the Company in support for its position of recovering cost overruns through rider filings is not relevant. Xcel Energy argued that the Commission's Order language clearly stated that it will permit "utilities, not just ITC Midwest, to seek higher recovery levels in future rider proceedings."[79]

In addition, Xcel Energy argued:

> In addition to being consistent with longstanding Commission practice and precedent, the GUIC true-up mechanism is also good policy. Utilities should be encouraged to provide forecasts that are as accurate as possible, given the best information available at the time of the forecast and based on the expertise and judgment of their engineering and project teams. This promotes transparency and predictability when it comes to the costs (and ultimately the rates) associated with these projects. Adopting the Department's recommended bright-line rule with respect to any costs above a utility's forecast—whether due to permitting delays, weather, or any other factor beyond a utility's control—would distort utility incentives around forecasting accuracy. Specifically, it would create significant incentives for utilities to adopt more conservative approaches to forecasting project costs in order to avoid disallowances for the sole reason that actual costs exceeded the forecast. We therefore do not believe the incentives created by this bright-line approach would be consistent with good utility policy or regulation.

As for the specific amount of cost recovery, Xcel Energy continues to disagree with the Department's position that the over-recovered amount of $1.97 million should be refunded while disallowing recovery of $0.97 million in prudently incurred DIMP related costs.[80]

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[79] Xcel Energy *Reply to Response Comments* at 4.

[80] *Id*.

### f. Staff Analysis

Staff notes that both Xcel Energy and the Department cite to other dockets in their respective comments. Xcel Energy cited to a certificate of need proceeding where ITC Midwest, a Michigan limited liability company proposed a plan for a 345 kV transmission line to be located in southwestern Minnesota (Docket No. ET-6675/CN-12-1053). In the Order, the Commission stated:[81]

> At the same time, the Commission recognizes that routing realities cannot always be foreseen with certainty, cost overruns can be prudently incurred, and that recovery over the $284,000,000 level could be justified under some circumstances. The Commission well therefore permit utilities to seek higher recovery levels in future proceedings, with proper documentation and explanation in their rider filings.

Specifically, Ordering Paragraph (OP) 1 of the Order stated:[82]

> The Commission grants ITC Midwest LLC a certificate of need for its 345 kV Transmission Line Project, with the following conditions:
>
> Utilities subject to the Commission's ratemaking authority shall recover through their transmission cost riders no more that [sic] $284 million or an amount in excess of that to the extent justified to the satisfaction of the Commission.
>
> . . .

The Department, in a footnote to its *Response Comments*, cite to Department testimony in a certificate of need proceeding (Docket No. ET-6675/CN-17-184) where a Department witness gave two examples where the Commission limited cost recovery in a Transmission Cost Recovery (TCR) rider filing to the approved cost estimates and required any recovery of excess costs in a future rate case. Commission staff reviewed the cited Orders and includes the following language for Commission consideration. The first cited proceeding (Xcel Energy TCR Rider filing in Docket No. E-002/M-09-1048) stated: [83]

> The Commission recognizes that changes in a company's initial cost projections can occur for many reasons, some largely outside of a utility's control. Regardless of whether a project ends up being under or over budget, overall project

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[81] *In the Matter of the Application of ITC Midwest LLC for a Certificate of Need for the Minnesota-Iowa 345 kV Transmission Line Projects in Jackson, Martin, and Faribault Counties*, Docket No. ET-6675/CN-12-1053, at 6 (November 25, 2014).

[82] *Id*. at 10.

[83] *In the Matter of the Northern States Power Company, a Minnesota Corporation, d/b/a Xcel Energy, for Approval of a Modification to its TCR Tariff, 2010 Project Eligibility, TCR Rate Factors, Continuation of Deferred Accounting and 2009 True-up Report*, Docket No. E-002/M-09-1048 at 6, Order Approving 2010 TCR Project Eligibility and Rider, 2009 TCR Tracker Report, and TCR Rate Factors (April 27, 2010).

> expenditures need to be evaluated for reasonableness and prudence before being allowed permanent rate recovery. As it did in the RES rider docket considered on the same date as this case, the Commission finds that TCR project cost recovery through the rider should be limited to the amount of the initial cost estimates at the time the projects are approved as eligible projects, with the opportunity for the Company to seek recovery of excluded costs on a prospective basis in a subsequent rate case. A request to allow cost recovery for project costs above the amount of the initial estimate may be brought for Commission review only if unforeseen or extraordinary circumstances arise on a project.

In Ordering Paragraph (OP) 4 of the Commission's Order the Commission stated:

> In setting guidelines for evaluating project costs going forward, the TCR project cost recovered through the rider should be limited to the amounts of the initial estimates at the time the projects are approved as eligible projects, with the opportunity for the Company to seek recovery of excluded costs on a prospective basis in a subsequent rate case. A request to allow cost recovery for project costs above the amount of the initial estimate may be brought forward for Commission review only if unforeseen and extraordinary circumstances arise on the project.

The second cited proceeding (Otter Tail Power Company's TCR Rider filing in Docket No. E-017/M-13-103) stated:[84]

> Accordingly, the Commission continues to believe that project costs included in the TCR rider should be capped at certificate of need levels, and concurs with the Department that the appropriate cap for the Bemidji project is $74 million. The TCR rider mechanism gives Otter Tail the extraordinary ability to charge its ratepayers for facilities prior to the ordinary timing (the first rate case after the project goes into service) and without undergoing the full scrutiny of a rate case. Holding the Company to its initial estimate is an important tool to enforce fiscal discipline.
>
> Further, imposition of a cap protects the integrity of the certificate of need process, in which it is critical that the cost estimates for the alternatives being compared are as reliable as possible. And, capping costs at the certificate of need levels is consistent with the Commission's actions in similar cases involving other utilities' riders.
>
> The Company is recovering the cost of these transmission facilities through a rider, a unique regulatory tool essentially designed to enable utilities to begin recovering the prudent and reasonable costs of critically needed capital investments between

[84] *In the Matter of Otter Tail Power Company's Request for Approval of a Transmission Cost Recovery Rider Including the Proposed Transmission Factor for the Recovery period from May 2, 2013 to April 30, 2014*, Docket No. E-017/M-13-103 at 4-5, Order Capping Costs, Denying rider Recovery of Excess Costs, and Requiring Inclusion of All MISO Schedule 26 Costs and Revenues in TCR Rider (March 10, 2014).

> rate cases. The rate case remains the primary vehicle for determining prudence and reasonableness.
>
> In the absence of a rate case, the best available proxy for determining prudence and reasonableness is the cost determination made on the record of a certificate of need or cost recovery eligibility proceeding. Here, the relevant proceeding is a certificate of need case. Otter Tail should continue recovering the costs it sponsored in its certificate of need case unless and until it demonstrates in a rate case that higher costs are prudent and reasonable.
>
> Finally, by this decision the Commission is not finding that the additional Bemidji costs, while significant, were imprudently incurred. Otter Tail will have the opportunity to seek recovery of excluded but prudent costs in its next rate case.

The Commission orders discussed above were contested-case proceedings which involved rigorous contested-case record development, including exhaustive evidentiary support and the opportunity for parties to cross-examine expert witnesses, which often inform the Commission's decision-making on these issues.

However, unlike some of the cases cited above, the instant petition is not a contested-case proceeding. Parties have not had the opportunity to cross-examine each other's expert witnesses. In an effort to find guidance on this issue staff reviewed past Commission orders involving cost recovery of GUIC investments in Rider petitions and found that in the 17-787 Docket the Commission allowed recovery of $0.2 million in cost overruns for the Island Line South project. Specifically the order stated:[85]

> Xcel proposed recovery of costs related to in-line inspection of the Island Line South pipeline, and water pumping to enable access to the line. The inspection is a TIMP project covering 1.9 miles of 20-inch natural gas pipeline that connects the Mendota Station to the south side of the Island Line Mississippi River crossing.
>
> The Company inspected the line due to estimated risks and the current condition of the pipeline, and included approximately $0.6 million in assessment costs (including costs to construct access to the line) as part of its cost-recovery request. The Department opposed recovery of assessment-related costs stating that the Company intends to replace the pipeline and that it was unnecessary to inspect the line since the last assessment was only two years prior to the recent assessment. For these reasons, the Department stated that Xcel's assessment costs were imprudently incurred and are unreasonable.
>
> The Company also incurred costs related to water pumping and ultimately incurred costs beyond the $1.7 million initially estimated due to unforeseen

[85] *In the Matter of the Petition of Northern States Power Company, d/b/a Xcel Energy, for Approval of a Gas Utility Infrastructure Cost Rider True-up Report for 2017, Forecasted 2018 Revenue Requirement and Revised Adjustment Factors,* Docket No. G-002/M-17-787, Order Approving Rider with Modifications at 8 – 9, 12 (August 12, 2019).

> weather issues and permitting delays. The Company claimed that the additional \$1.5 million in cost overruns are eligible for recovery under the GUIC statute. In its examination of cost over-runs related to pumping, the Department stated that only \$0.2 million was weather-related and that the Company had not demonstrated that cost overruns beyond that amount were supported by the record. The Department therefore recommended recovery of the initial estimate of \$1.7 million, plus the \$0.2 million in cost overruns.
>
> The Commission will authorize recovery of in-line inspections costs of this project. Although the Company may be inclined to replace the line, the costs of the in-line assessment itself were not unreasonably excessive and will help inform a final decision on replacement. The Commission will, however, limit Xcel's water pumping recovery costs to the \$1.7 million as originally estimated by the Company and the \$0.2 million in cost overruns supported by the record.

Thus, there appears to be some limited instances where the Commission allowed the recovery of prudently incurred cost overruns in past GUIC proceedings. Particularly, in the 17-787 Docket, the \$0.2 million in cost overruns approved by the Commission were largely due to weather and permitting delays, factors that were out of the Company's control. Xcel Energy notes that a hard cap on recovering forecasted amounts will result in utilities being more conservative in estimates in order to prevent cost overruns from occurring. The Commission may wish to consider the following when deciding whether to approve the Company's request to recover its true-up of actual costs:

- Were the costs prudently incurred?
- Was Xcel Energy's forecast reasonable?
- Were the overruns the result of a condition outside of the Company's control?
- What impact will disallowance have on future utility forecasting?

#### g. Decision Alternatives

22. Require Xcel Energy to remove \$1.97 million in TIMP-related costs from its 2019 GUIC Rider to account for budgeted 2017 TIMP-related costs that were not incurred, and disallow an adjustment of \$0.90 million in DIMP costs in its 2019 GUIC Rider to account for 2017 DIMP cost overruns, to the extent that these costs were not already captured in the 2018 GUIC Rider. [Department]

    or,

23. Approve adjustment of 2019 GUIC Rider revenue recovery to remove \$1.97 million in forecasted 2017 TIMP-related costs that were ultimately not incurred. [Xcel Energy]

    and,

24. Allow recovery of \$0.90 million in DIMP-related cost overruns through the 2019 GUIC Rider. [Xcel Energy]

## 4. Risk Assessment

### a. Background

Xcel Energy applies a risk assessment tool to prospective projects to determine which projects should be prioritized in a given year, given economic constraints. Since risk assessment is prospective, this tool can be used to help the Commission set reasonable rates for specific projects that are expected to be undertaken in the upcoming year.[86]

### b. Department Comments

The Department reviewed Xcel Energy's 2019 GUIC risk assessment reporting, and concluded that the Company's risk assessment process appears to be reasonable. However, the Department noted that Xcel Energy's risk assessment process is difficult to review for reasonableness. To that end, the Department discussed ways to improve the risk assessment reporting.

#### i. Improvement of Risk Assessment

The Department argued that risk assessments for all considered projects should be provided even if they are ultimately not accepted. For example, the Department reviewed the proposed *TIMP Transmission Pipeline Assessment-Integrity Assets Program*[87] and determined that although Xcel Energy shows the risk scores and risk levels for each accepted project and also provided information about how the risk information was determined the Company did not show any information about the rest of the system. As a result, it is not clear to the Department how many other potential TIMP Assessment- Integrity Asset projects exist, what their risk categories are, how quickly projects are being addressed versus how quickly they are becoming higher risk, whether the Company is appropriately prioritizing projects, and whether the Company is consistently apply risk rankings to all potential projects year-to-year. The Department argued that all of this information is critical for the Commission to determine if the proposed investments are the best use of ratepayer resources.[88]

The Department did acknowledge that the risk assessment for the *DIMP Poor Performing Mains and Services* program provided some useful information providing a risk "profile" for all potential DIMP steel mains and services on Xcel Energy's system as shown on the following tables.[89]

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[86] The TIMP and DIMP 2019 risk assessments are found in *Petition* Attachments C2 and Attachments D2(a) and D2(b), respectively.

[87] Xcel Energy's *Petition* Attachment C2 at 9.

[88] Department *Comments* at 32.

[89] Xcel Energy's *Petition* Attachment D2(a) at 3.

**Table 17: 2016 Gas Distribution System Risk Composition (Total Potential DIMP Mains and Services Projects, Steel)**

| Risk Category | Project Risk Scores Range | Number of Optimain Projects Identified as of December 2016 | Percentage |
|---|---|---|---|
| High | Score ≥ 36 | 2,829 | 4.68% |
| Medium | 24 ≤ Score < 36 | 654 | 1.08% |
| Low | 1 ≤ Score < 24 | 12,600 | 20.86% |
| None | Score < 1 | 44,320 | 73.37% |
| **Total** | **All** | **60,403** | |

**Table 18: 2017 Gas Distribution System Risk Composition (Total Potential DIMP Mains and Services Projects, Steel)**

| Risk Category | Project Risk Scores Range | Number of Optimain Projects Identified as of December 2017 | Percentage |
|---|---|---|---|
| High | Score ≥ 36 | 2,693 | 4.48% |
| Medium | 24 ≤ Score < 36 | 665 | 1.11% |
| Low | 1 ≤ Score < 24 | 12,547 | 20.89% |
| None | Score < 1 | 44,152 | 73.52% |
| **Total** | **All** | **60,057** | |

**Table 19: 2018 Gas Distribution System Risk Composition (Total Potential DIMP Mains and Services Projects, Steel)**

| Risk Category | Project Risk Scores Range | Number of Optimain Projects Identified as of October 2018 | Percentage |
|---|---|---|---|
| High | Score ≥ 36 | 1,415 | 2.42% |
| Medium | 24 ≤ Score < 36 | 663 | 1.13% |
| Low | 1 ≤ Score < 24 | 12,519 | 21.37% |
| None | Score < 1 | 43,990 | 75.08% |
| **Total** | **All** | **58,587** | |

The Department noted that these types of high-level snapshots provide useful information indicating that the number and percentage of high risk projects has decreased over time. This trend indicates that the Company does appear to be appropriately prioritizing projects.

### ii. Additional Issues

The Department found additional issues with the risk assessment portion of the Company's filing. First, the Company did not appear to include the Eagan Line from the Transmission

Pipeline Assessment – Replacement program in its risk assessment submitted for 2019, even though this project was included in the project detail portion of the filing.

Further, the Company included a table of high and medium risk DIMP Distribution Valve Replacement projects in the DIMP risk assessment, but did not appear to include any proposed Distribution Valve Replacement projects in its filing. The Department requested that the Company clarify and correct these inconsistencies in *Reply Comments*.

The Department also compared the proposed 2019 DIMP main and service replacements against those proposed in 2018. The Department found significant overlap between the two filings, but also found cost inconsistencies. The Department detailed this information in the following table.

**Table 20: Proposed Overlapping 2018 and 2019 DIMP Poor Performing Mains and Services Projects**

| City | Description | 2018 GUIC Filing | | | 2019 GUIC Filing | | |
|---|---|---|---|---|---|---|---|
| | | Total Design Ft. | Total Services | Anticipated Cost | Total Design Ft. | Total Services | Anticipated Cost |
| Cottage Grove | Pt Douglas Rd, Ideal Ave | 4,735 | 40 | $221,495 | 7,000 | 40 | $394,463 |
| | Hyde Ave | 3,710 | 41 | $184,247 | 3,600 | 41 | $234,268 |
| Lake Elmo | 31st/Jamley/Janero | 6880 | 43 | $241,955 | 6882 | 43 | $330,449 |
| Mendota Heights | Bachelor-Stanwich | 10,570 | 100 | $506,307 | 10,570 | 100 | $551,100 |
| | Overlook Rd | 5,700 | 45 | $263,144 | 5,700 | 45 | $285,735 |
| Red Wing | 9th St | 850 | 8 | $40,699 | 850 | 8 | $44,264 |
| | Woodland Dr | 4,200 | 48 | $210,377 | 4,200 | 48 | $229,584 |
| | Reding Ave | 4,830 | 48 | $233,912 | 4,830 | 48 | $254,784 |
| | Maple St | 7,600 | 161 | $477,146 | 7,600 | 174 | $527,242 |
| Roseville | Oxford | 1,200 | 5 | $50,443 | 1,200 | 5 | $54,415 |
| Winona | E 10th St | 3,000 | 108 | $231,900 | 3,000 | 108 | $258,564 |
| | E 7th St | 3,500 | 64 | $201,868 | 3,500 | 64 | $222,112 |
| | E 9th St | 1,400 | 35 | $91,160 | 1,400 | 35 | $100,905 |
| | Collegeview St | 2,000 | 54 | $1,346,660 | 2,000 | 54 | $149,282 |
| | W 9th St | 3,400 | 64 | $198,126 | 3,400 | 64 | $218,112 |
| | 7th St W | 5,800 | 138 | $369,910 | 5,800 | 138 | $409,054 |
| | Conrad Dr | 6,600 | 133 | $394,307 | 5,300 | 133 | $382,639 |

The Department noted that each of the above projects was included in both the 2018 and 2019 GUIC filings. The Department stated that costs of projects that were already included in 2018 should not be included in the 2019 GUIC, as including the same project in 2019 would result in double-recovery of the same project.

The Department noted that Xcel Energy did not identify this proposed double-recovery in its *Petition*, let alone explain why the costs were included again. Thus, the Department recommended that proposed 2019 costs for all projects listed in Table 20 be removed from the 2019 GUIC Rider.

Finally, the Department noted some cost discrepancies in projects that appear to be identical. For each project (save the Winona Collegeview St. and Conrad Dr. projects), the costs increased from 2018 to 2019. The costs of the Winona Collegeview project decreased, but the amount identified for the 2018 GUIC is so much greater than the costs of any other project ($673.33/foot) that it appears that the 2018 cost estimate was a data error (i.e. should have been $134,666). Again, the Company does not explain these discrepancies.

The Department recommends that the Commission disallow cost recovery in the 2019 GUIC of the projects listed above in Table 20, as Xcel Energy has not shown that the costs of these projects should be recovered from ratepayers in the 2019 GUIC. These projects total $4,646,972 in proposed 2019 costs.

In addition, the Department requests that in *Reply Comments*, Xcel Energy identify the costs for the Winona Collegeview project, proposed to be recovered in both the 2018 and 2019 GUIC riders. If the amount for this project for 2018 was $1,346,660, the Company should also fully explain why the costs of this project are so much higher than costs of other projects.

### c. Xcel Energy Reply Comments

#### i. Additional Risk Assessment Profiles

In response to the Department's request for additional risk profiles for all potential projects in each proposed TIMP and DIMP program,[90] Xcel Energy stated that it cannot develop profiles for all TIMP and DIMP programs, as the software that the Company uses for this purpose is only used for the *DIMP Poor Performing Mains and Service* program.[91] Additionally, the software capable of producing the requested risk profile is not commercially available. However, Xcel Energy did note that it conducted an initial assessment of all TIMP and DIMP programs, and stated that it may be possible to develop a full risk assessment for the *TIMP Transmission Pipeline Assessment* and *TIMP Programmatic Replacement/MAOP Remediation* programs.[92]

#### ii. Overlapping 2018 and 2019 DIMP Poor Performing Mains and Services project

In response to the Department's recommendation to disallow $4,646,972 of 2019 GUIC project costs due to double recovery concerns, Xcel Energy stated that the preparation of the instant petition occurred in the middle of the 2018 construction season and at that time, it was

[90] Department *Comments* at 34.

[91] Xcel Energy *Reply Comments* at 15.

[92] *Id*.

thought that the projects in question would slip from the 2018 construction schedule to the 2019 schedule. Which explains why the projects showed up in both 2018 and 2019.[93] As it turned out, all the projects were completed and put in service in 2018 and will be reflected in the 2018 GUIC Rider revenue requirement and not the 2019 GUIC Rider revenue requirement.[94]

#### iii. Consequence Class Data for Pipelines

Xcel Energy noted that the Department requested additional data about the Company's programs to include categorizations about population "consequence" classes. In response, Xcel Energy submitted the requested information for plastic mains and services, but not for steel mains and services.[95] The Company clarified that its steel mains program does not track consequence class for each project, but that it is open to doing so going forward.[96]

#### iv. Winona Collegeview Project

In response to the Department's request for clarification regarding the *DIMP Poor Performing Mains and Services* project on Collegeview Street in Winona, Xcel Energy confirmed that the anticipated cost of $1.3 million reported in the Company's 2018 GUIC Rider was in error and confirmed that the project was completed and placed in-service in 2018 for a total of $120,622.[97]

#### v. Eagan Line Transmission Pipeline Assessment

The Eagan line is a 5.8-mile, 12-inch diameter pipeline installed in 1941. Xcel Energy stated that this project received a high risk score of 4 based on the Company's Transmission Pipeline Assessment Project Risk methodology provided in Attachment C2 of its *Petition*.[98] Xcel Energy state that this project had a high risk score because the pipeline was installed in 1941, was last pressure tested in 2013, and contains high consequence areas.

### d. Department Response Comments

#### i. Additional Risk Assessment Profiles

The Department reiterated its concern that there is little information that compares selected versus non-selected projects; there may be other more feasible ways for Xcel Energy to report this information therefore, the Department is open to continuing the discussion of this issue with the Company.

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[93] *Id*. at 16.

[94] *Id*. at 17.

[95] *Id*. at Attachment F.

[96] *Id*. at 20.

[97] *Id*. at 20-21.

[98] *Id*. at 21.

Therefore, the Department amended its recommendation, and instead recommends that the Commission direct Xcel Energy to develop full risk assessment profiles for the TIMP Transmission Pipeline Assessment program and the TIMP Programmatic Replacement/MAOP Remediation program. In addition, the Department continues to recommend that Xcel Energy continue working to improve its risk assessment reporting in future filings, with the goal of providing better explanations of the Company's assets.

#### ii. Overlapping 2018 and 2019 DIMP Poor Performing Mains and Services project

In recognition of Xcel Energy's *Reply Comments*, the Department is satisfied with the Company's explanation and withdraws its recommendation for disallowance of $4,646,972 in proposed 2019 costs. Instead the Department recommends that the Commission direct Xcel Energy to include an updated copy of Attachment D1(a), page 1 that reflects removal of the DIMP projects from the 2019 GUIC rider in a compliance filing.

#### iii. Consequence Class Data for Pipelines

The Department agreed that consequence classes for the steel mains and services should be a reasonable piece of information to track, and notes that once Xcel Energy provides a few years of this data, parties may have a better sense of appropriate cost ranges for each consequence class. Therefore, the Department supported the Company's proposal to provide both plastic and steel mains and services consequence class information in future GUIC filings, and recommended that the Commission require the Company to provide this information going forward.

#### iv. Winona Collegeview Project

The Department stated that it is satisfied with Xcel Energy's response and considers this issue resolved.

#### v. Eagan Line Transmission Pipeline Assessment

The Department stated that it is satisfied with Xcel Energy's response and considers the issue resolved.

### e. Xcel Energy Reply to Response Comments

#### i. Additional Risk Assessment Profiles

Xcel Energy noted that at this time, the Company is in the process of evaluating its gas transmission pipelines to provide high-level risk information for the TIMP *Transmission Pipeline Assessment and Programmatic Replacement/MAOP Remediation* projects, as requested by the Department. Xcel Energy committed to providing the requested information in its next GUIC Rider filing.

##### ii. Overlapping 2018 and 2019 DIMP Poor Performing Mains and Services project

Xcel Energy stated that it considered this issue resolved

##### iii. Winona Collegeview Project

Xcel Energy stated that it considered this issue resolved.

#### f. Decision Alternatives

25. Require Xcel Energy to continue to improve its risk assessment reporting in future GUIC filings, with the goal of providing better explanations of the Company's assets. [Department]

    and,

26. Require Xcel Energy to provide consequence class information for both plastic and steel mains and services in future GUIC filings. [Department]

    and,

27. Direct Xcel Energy to develop full risk assessment profiles for the TIMP *Transmission Pipeline Assessment* program and the TIMP *Programmatic Replacement/MAOP Remediation* program. [Department]

    and,

28. Direct Xcel Energy to include an updated copy of Attachment D1(a), page 1 that reflects removal of the DIMP projects from the Company's 2019 GUIC Rider in its compliance filing. [Department]

### 5. Performance Metrics

#### a. Background

In the 15-808 Docket, the Commission required Xcel Energy to develop metrics and reporting requirements to analyze the appropriateness of the Company's GUIC expenditures.[99] Performance Metrics are a retrospective tool to help the Commission determine the reasonableness of Xcel Energy's cost estimates for completed GUIC Rider projects.[100] Currently, projects are evaluated by five metrics as shown in the following table.

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[99] *In the Matter of the Petition of Northern States Power Company, d/b/a Xcel Energy, for Approval of a Gas Utility Infrastructure Cost Rider (GUIC) True-up Report for 2015, Forecasted 2016 GUIC Revenue Requirement, and Revised GUIC Adjustment Factors*, Docket No. G-002/M-15-808, Order Requiring Updated Report, Approving Rider Recovery, and Requiring Metrics to Evaluate GUIC Expenditures (August 18, 2016) at OP 2.

[100] Xcel Energy *Petition* at Attachment W.

**Table 21: Xcel Energy's GUIC Performance Metrics**

| Program | Metric | Benefit |
|---|---|---|
| DIMP | Leak Rate by Vintage and Pipe Type | Monitor the impact of renewal efforts on the leakage rates. Selection of higher-risk pipe segments will lower leakage rates over time. |
| | Poor Performing Main Replacements Unit Cost | Monitor unit costs greater than one standard deviation above the mean to ensure variances are understood and reasonable. |
| | Poor Performing Service Replacements Unit Cost | Monitor unit costs greater than one standard deviation above the mean to ensure variances are understood and reasonable. |
| TIMP | Gas Transmission Anomalies Repaired | Monitor the impact of pipeline assessment, repair and renewal efforts on the number of anomalies that require repair. Appropriate repairs and renewal efforts will lower anomalies over time. |
| | Actual vs. Estimated Cost Variance Explanations for Capital Projects | Monitor cost variances to ensure variances are understood and reasonable. |

### b. Department Comments

The Department reviewed the performance metric information included in the Company's filing, and concluded that, while the Company has met its compliance obligation of the Commission's Order, there is room for improving the reporting of performance metrics. From the Department's perspective, the bare minimum of evaluating the reasonableness of costs should involve evaluating the cost and effectiveness of each program. The Department argued that if these two metrics are captured each year, the Commission would be able to get a better sense of the cost effectiveness of each TIMP and DIMP program.

The Department stated that the current performance metrics do not adequately measure cost and effectiveness for each GUIC program, if at all. The Department noted that the existing performance metrics do not appear to cover each of the Company's 2017 GUIC programs. Moreover, a single metric is frequently used to measure multiple programs. Specifically, the Department stated:

> For example, the metric "Leak rate by vintage and pipe type" appears to be the effectiveness performance metric for three different DIMP programs: Poor Performing Main Replacements, Poor Performing Service Replacements, and IP

> Line Assessments. To clarify, the Company does not submit different leak rate metrics for mains, services, and IP line; the Company submits a single metric, which appears to cover all three DIMP programs. The Department discusses each of the current metrics further below, but notes here that the existing metric is too broad to meaningfully evaluate three different programs at once.
>
> Further, Xcel's accountability for costs is inadequate. Given that a rider allows a utility to recover costs year to year without the cost discipline of a rate case, cost accountability is a critical aspect of the rider.

In response to its concerns, the Department recommended, at a minimum, that for each GUIC TIMP and DIMP program reviewed, the Commission should require the Company submit at least one cost performance metric and one effectiveness performance metric. The Department argued that the metrics should be specific enough to give the Commission meaningful information about the specific program being evaluated. To that end, the Department reviewed each of the existing metrics, followed by a discussion of additional metrics that could be introduced to help the Commission better determine reasonableness of investments in each program.[101]

**Table 22: The Department's Suggested Performance Metrics by 2017 GUIC Program and Metric Type**

| | Program | Cost Performance Metric | Effectiveness Performance Metric |
|---|---|---|---|
| TIMP | Transmission Pipeline Assessments | -ILI Assessment Unit Cost<br>-Anomaly Repair Unit Cost | -Number of leaks for repaired assets versus non-repaired assets<br>-Volume of leaks for repaired assets versus non-repaired assets |
| | Automatic Shutoff Valve (ASV) and Remote Controlled Shutoff Valve (RCV) | -ASV Unit Cost<br>-RCV Unit Cost | -Time period of leak detection by event for each replaced asset versus non-replaced asset<br>-Volume of leak for each leak by event for each replaced asset versus non-replaced asset |

[101] Department *Comments* at 39-46.

| | Program | Cost Performance Metric | Effectiveness Performance Metric |
|---|---|---|---|
| | Programmatic Replacement and MAOP Remediation | -Main Replacement Unit Cost (per foot) | -Percentage of records complete over time<br>-Number and volume of leaks for replaced pipelines versus non-replaced comparable assets |
| DIMP | Poor Performing Main Replacement | -Poor Performing Main Replacement Unit Cost (per foot) | -Number and volume of leaks for distribution mains replaced versus non-replaced comparable assets |
| | Poor Performing Service Replacement | Poor Performing Service Replacement Unit Cost (per service and per foot) | -Number and volume of leaks for services replaced versus non-replaced comparable assets |
| | Intermediate Pressure (IP) Line Assessments | -Assessment Unit Cost<br>-Anomaly Repair Unit Cost | -Number and volume of leaks for IP lines repaired versus non-repaired comparable assets |
| | Distribution Valve Replacement | -Replacement Unit Cost | -Time period of leak detection by event for each replaced asset versus non-replaced asset<br>-Volume of leak for each leak by event for each replaced asset versus non-replaced asset |
| | Sewer and Gas Line Conflict Investigation | -Inspection Unit Cost<br>-Repair Unit Cost | -Percentage of potential projects inspected over time |
| | Federal Code Mitigation | -Repair/project unit cost | -Percentage of projects out of compliance over time |

The Department noted that Xcel Energy may be able to improve on the above suggestions and invited the Company to provide input.

### c. Xcel Energy Reply Comments

The Company stated that it is not opposed to continuing to report *Poor Performing Main Replacement Unit Cost* and *Poor Performing Service Replacement Unit Cost*. In addition, Xcel Energy stated that it may be feasible to report: [102]

- Distribution valve replacement unit cost;
- Sewer and gas line conflict investigation inspection unit cost;
- ASVs and RCVs time period of leak detection by event for each replaced and non-replaced asset;
- Programmatic replacement and MAOP remediation percentage of records complete over time;
- Poor performing main replacement number of leaks;
- Poor performing service replacement number of leaks;
- Intermediate pressure line assessment number of leaks;
- Sewer and gas line conflict investigation percentage of potential projects inspected over time; and
- Federal code mitigation percentage of projects out of compliance over time.

In regards to the Department's proposals on cost performance metrics, Xcel Energy stated that unit cost performance metrics will not necessarily yield meaningful results for all programs.[103] The Company argued that the most effective way to use this performance metric is in programs where unitized costs are expected to be similar and where a statistically significant sample exists. For example, the Transmission Pipeline Assessments program does not have enough projects in a given year to yield a statistically significant sample size (there were five performed in 2017). Further, Xcel Energy argued the costs for this program vary widely based on the assessment method(s) used, diameter/length/condition of the line, and specific threats to be addressed.

### d. Department Response Comments

The Department agrees with the Company's initial thoughts on this matter. The Department also suggested that there might be ways to create meaningful data out of such projects. For example, it may be that data for all Transmission Pipeline Assessment projects over many years (adjusted for inflation) could be compared. Alternatively, there may be ways to break down the total costs of the projects into specific components that are better compared. However, the Department notes that any further investigation of such data should only be pursued if it helps the Commission better make a determination of the reasonableness of costs incurred; it may be that such analysis would not aid in this determination.

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[102] Xcel Energy *Reply Comments* at 17-19.

[103] *Id*. at 18.

Given the feedback from Xcel Energy, the Department provided the following table with updated potential performance metrics for each TIMP and DIMP program.

**Table 23: Department's Suggested Performance Metrics by 2017 GUIC Program and Type of Metric, Modified by Feedback from Xcel Energy**

| | Program | Cost Performance Metric | Effectiveness Performance Metric |
|---|---|---|---|
| TIMP | | | |
| | Transmission Pipeline Assessments | -Estimated versus actual costs per project | -Number of leaks for repaired assets versus non-repaired assets |
| | ASVs and RCVs | -ASV Unit Cost<br>-RCV Unit Cost | - Time period of leak detection by event for each replaced asset versus non-replaced asset |
| | Programmatic Replacement and MAOP Remediation | -Main Replacement Unit Cost (per foot) | -Percentage of records complete over time |
| DIMP | Poor Performing Main Replacement | -Poor Performing Main Replacement Unit Cost (per foot) | -Number of leaks for distribution mains replaced versus non-replaced comparable assets |
| | Poor Performing Service Replacement | -Poor Performing Service Replacement Unit Cost (per service and per foot) | -Number of leaks for services replaced versus non-replaced comparable assets |
| | Intermediate Pressure (IP) Line Assessments | -Estimated versus actual costs per project | -Number of leaks for IP lines repaired versus non-repaired comparable assets |
| | Distribution Valve Replacement | -Replacement Unit Cost | - Time period of leak detection by event for each replaced asset versus non-replaced asset |
| | Sewer and Gas Line Conflict Investigation | -Inspection Unit Cost | -Percentage of potential projects inspected over time |
| | Federal Code Mitigation | -Repair/project unit cost | -Percentage of projects out of compliance over time |

The Department amended its initial recommendation, and instead recommends that the Commission require Xcel Energy to develop performance metrics based on the above table to include in future GUIC Rider filings. The Department continues to recommend that Xcel Energy continue to work to improve its performance metrics reporting in future filings, with the goal of providing better explanations of the Company's assets.

### e. Xcel Energy Reply to Response Comments

Xcel Energy stated that it is "generally amenable" to providing most of the requested performance metrics on a going-forward basis. However, the Company did recommend modifications to the requested metrics to make the final set of reportable metrics more useful.

First, Xcel Energy does not consider the number of leaks as the best measure of effectiveness for leak prevention. Instead, the Company considers leak rate to be a more effective measure than leak count.[104] Xcel Energy argues that context is important when deciding whether work is effectively eliminating leaks. For example, if the Company has eight leaks on a segment of pipe, that may or may not be concerning, depending on the length of that segment of pipe. Eight leaks on a 100-foot section of pipe would be extremely concerning while eight leaks on a 100-mile section of pipe would be significantly less concerning. Leak rate takes this context into account and can show how much of our system is affected by leaks.

Second, the Company does not believe that unit cost metrics would be useful for determining the effectiveness for the TIMP ASV/RCV project and DIMP intermediate pressure (IP) line assessment project, because for each project there is a limited number of completed projects each year. With only limited number of projects, per-unit costs measurements can be highly variable and statistically significant conclusions may be difficult to determine. We instead recommend our initially proposed cost performance metrics of estimated versus actual costs per project.

Third, Xcel Energy does not believe that any changes are necessary to the current performance metrics for the *DIMP Distribution Valve Replacement*, *DIMP Sewer and Gas Line Conflict Investigation*, and *DIMP Federal Code Mitigation* projects since the projects have already ended, or are ending in 2019.

[104] Xcel Energy *Reply to Response Comments* at 10.

Overall, Xcel Energy recommended the performance metrics shown in the table below.[105]

**Table 24: Xcel Energy - Recommended Performance Metrics**

| Program | Project | Cost Performance Metric | Effectiveness Performance Metric |
|---|---|---|---|
| TIMP | Transmission Pipeline Integrity Assessments | Estimated versus actual costs per project | Anomalies repaired by type |
| | Transmission Pipeline ASV/RCV Installation | Estimated versus actual costs per project | |
| | Programmatic Replacement/MAOP Remediation | Estimated versus actual costs per project | Percentage of high/medium risk projects system-wide |
| DIMP | Poor Performing Main Replacement | Poor performing main replacement unit cost (per foot) | Leak rate by vintage |
| | Poor Performing Service Replacement | Poor performing service replacement unit cost (per foot) | Leak rate by vintage |
| | Intermediate Pressure Line Assessments | Estimated versus actual costs per project | Anomalies repaired by type |

### f. Staff Analysis

On August 12, 2019, after the filing of comments and reply comments in the instant proceeding, the Commission issued its *Order* in the 17-787 Docket directing the Department and Xcel Energy to continue discussions on the establishment of performance metrics in GUIC proceedings.[106] Staff notes that the two parties met on August 27, 2019 to continue the discussion regarding the format of future performance metrics. The Commission may wish to discuss this issue with the two parties at the October 10, 2019 agenda meeting to see if the parties have reached an agreement on the format of performance metrics.

[105] Xcel Energy noted that it provides additional reporting metrics required by the United States Department of Transportation in its annual Natural Gas Service Quality reports. The most recent Gas Service Quality Report was submitted on May 1, 2019, in Docket No. G-002/M-19-305. The Company stated that it intends to provide cost and effectiveness performance metrics in future GUIC Rider filings.

[106] *In the Matter of the Petition of Northern States Power Company d/b/a Xcel Energy for Approval of a Gas Utility Infrastructure Cost Rider True-up Report for 2017, the Forecasted 2018 Revenue Requirements, and Revised Adjustment Factors*, Docket No. G-002/M-17-787, Order Authorizing Rider Recovery and Setting Reporting Requirements (August 12, 2019) at OP 15.

### g. Decision Alternatives

29. Approve the Department's proposed performance metrics. [Department]

30. Approve Xcel Energy's proposed performance metrics. [Xcel Energy]

31. Direct the Department and Xcel Energy to continue discussion regarding reaching a consensus on the establishment of performance metrics in future GUIC petitions.

# V. Decision Alternatives

**Resolved Issues**

***GUIC Retired Facilities Revenue Credit***

1. Approve Xcel Energy's accounting for the GUIC Retired Facilities Revenue Credit.

***Prorated Accumulated Deferred Income Tax***

2. Require Xcel Energy to remove the application of prorated ADIT for rate base establishment when it is not required for IRS normalization purposes (i.e., the effective date of the rider rate is post test period). [Department]

***Removal Costs Impact on GUIC Recovery Request***

3. Approve Xcel Energy's explanation of the removal of cost impacts on the GUIC Rider rate base cost components, *Accumulated Book Depreciation Reserve* and the *Accumulated Deferred Taxes*.

***Tax Cuts and Jobs Act of 2017***

4. Require Xcel Energy to show in the revenue requirement schedules a breakdown of the Accumulated Deferred Income Tax balance to separately identify the excess ADIT (i.e., EDIT) balance, attributed to the Tax Cuts and Jobs Act of 2017, that is to be returned to ratepayers as well as the amortized amount of the EDIT being included in the GUIC revenue requirement. [Department]

**Disputed Issues**

***Sales Forecast***

5. Allow Xcel Energy to utilize its 2019 sales forecast to allocate costs across jurisdictions and classes. [Xcel Energy]

6. Require Xcel Energy to use the most recent 12 months of actual natural gas sales to allocate the costs across jurisdictions and classes. [Department]

***Tracker Balance Carrying Charge***

7. Approve the implementation of a carrying charge in the GUIC tracker account. [Xcel Energy]

8. Deny implementation of a carrying charge in the GUIC tracker account. [Department]

***DIMP/TIMP – Rider Eligibility for Expenditures on Low-Risk Infrastructure Replacement***

9. Approve cost recovery of low-risk infrastructure replacement done in conjunctions with a GUIC eligible project. [Xcel Energy]

10. Require Xcel Energy to remove and exclude from the GUIC Rider costs incurred on low-risk infrastructure replacement work activity not required by either civic/public work requirements nor by government regulations. [Department]

***TIMP – Programmatic Replacement and MAOP Remediation***

11. Determine that Xcel Energy has demonstrated MAOP validation costs and costs related to data gaps are prudently incurred and authorize the Company to recover the costs in full. [Xcel Energy]

12. Determine that the "return on" the capital costs incurred to remediate the system's MAOP data gaps, shall be limited to Xcel Energy's weighted long-term cost of debt. [Department]

***Internal Capitalized Costs***

13. Allow Xcel Energy cost recovery of Overhead, Other, and Transportation, totaling $8,157,695 in the GUIC Rider. [Xcel Energy]

14. Require Xcel Energy to remove the costs of Overhead, Other, and Transportation, totaling $8,157,695, from the GUIC Rider. [Department]

***Rate of Return on Investment***

15. Approve Xcel Energy's proposed capital structure and cost of debt for this rider with a return on equity (ROE) of 10.25 percent and a rate of return (ROR) of 7.63 percent. [Xcel Energy]

**Xcel Energy - Proposed Rate of Return, this docket**

| | Capital Structure | Cost | Weighted Cost |
|---|---|---|---|
| Long-term Debt | 45.81% | 4.75% | 2.18% |
| Short-term Debt | 1.69% | 4.31% | 0.07% |
| Common Equity | 52.50% | **10.25%** | 5.38% |
| **Rate of Return** | **100.00%** | | **7.63%** |

16. Approve the Department's proposed capital structure and cost of debt with an ROE of 9.04 percent and an ROR of 7.02 percent [Department]

**Department - Proposed Rate of Return, this docket (Based on 17-787 Decision)**

| | Capital Structure | Cost | Weighted Cost |
|---|---|---|---|
| Long-term Debt | 45.61% | 4.94% | 2.25% |
| Short-term Debt | 1.89% | 1.12% | 0.02% |
| Common Equity | 52.50% | **9.04%** | 4.75% |
| **Rate of Return** | **100.00%** | | **7.02%** |

17. Approve Xcel Energy's proposed capital structure and cost of debt with an ROE of 9.04 percent and an ROR of 7.00 percent [Department Alternate]

**Department Alternate - Proposed Rate of Return, this docket**

| | Capital Structure | Cost | Weighted Cost |
|---|---|---|---|
| Long-term Debt | 45.81% | 4.75% | 2.18% |
| Short-term Debt | 1.69% | 4.31% | 0.07% |
| Common Equity | 52.50% | **9.04%** | 4.75% |
| **Rate of Return** | **100.00%** | | **7.00%** |

18. Approve Xcel Energy's proposed capital structure and cost of debt with an ROR of 4.75 percent and an ROE of 4.76 percent. [OAG]

**OAG Proposed Rate of Return, this docket**

| | Capital Structure | Cost | Weighted Cost |
|---|---|---|---|
| Long-term Debt | 45.81% | 4.75% | 2.18% |
| Short-term Debt | 1.69% | 4.31% | 0.07% |
| Common Equity | 52.50% | **4.76%** | 2.50% |
| **Rate of Return** | **100.00%** | | **4.75%** |

***Sewer and Natural Gas Line Conflict Rider Recovery Amount***

19. Approve the reduction of 2019 GUIC revenue requirement by $50,000 to account for the cost of sewer inspection work included in current base rates, and continue such an adjustment in its prospective GUIC petitions corresponding to the amount included in base rates. [Department, Xcel Energy]

    and,

20. Approve an additional reduction of 2019 GUIC revenue requirement of $371,364 to remove previously deferred amounts that were erroneously included. [Department]

    or,

21. Approve an additional reduction of 2019 GUIC revenue requirement of $250,000 to remove previously deferred amounts that were erroneously included. [Xcel Energy]

**True-up of Actual GUIC Rider Costs**

22. Require Xcel Energy to remove $1.97 million in TIMP-related costs from its 2019 GUIC Rider to account for budgeted 2017 TIMP-related costs that were not incurred, and disallow an adjustment of $0.90 million in DIMP costs in its 2019 GUIC Rider to account for 2017 DIMP cost overruns; [Department]

    or,

23. Approve adjustment of 2019 GUIC Rider revenue recovery to remove $1.97 million in forecasted 2017 TIMP-related costs that were ultimately not incurred. [Xcel Energy]

    and,

24. Allow recovery of $0.90 million in DIMP-related cost overruns through the 2019 GUIC Rider. [Xcel Energy]

**Risk Assessment**

25. Require Xcel Energy to continue to improve its risk assessment reporting in future GUIC filings, with the goal of providing better explanations of the Company's assets; [Department]

    and,

26. Require Xcel Energy to provide consequence class information for both plastic and steel mains and services in future GUIC filings; [Department]

    and,

27. Direct Xcel Energy to develop full risk assessment profiles for the TIMP *Transmission Pipeline Assessment* program and the TIMP *Programmatic Replacement/MAOP Remediation* program. [Department]

    and,

28. Direct Xcel Energy to include an updated copy of Attachment D1(a), page 1 that reflects removal of the DIMP projects from the Company's 2019 GUIC Rider in its compliance filing. [Department]

***Performance Metrics***

29. Approve the Department's proposed performance metrics [Department]
30. Approve Xcel Energy's proposed performance metrics [Xcel Energy]
31. Direct the Department and Xcel Energy to continue discussion regarding reaching a consensus on the establishment of performance metrics in future GUIC petitions.

***Compliance Filings***

32. Require Xcel Energy to submit a compliance filing within ten days of the date of this order showing the final rate adjustment factors, and all related tariff changes.

    and,

33. Require Xcel Energy to include electronic files of its revenue requirements schedules, with formulae intact, in its final compliance filing. [Department]

**Minn. Stat. § 216B.1635. RECOVERY OF GAS UTILITY INFRASTRUCTURE COSTS.**

Subdivision 1. **Definitions.**

(a) "Gas utility" means a public utility as defined in section 216B.02, subdivision 4, that furnishes natural gas service to retail customers.

(b) "Gas utility infrastructure costs" or "GUIC" means costs incurred in gas utility projects that:

(1) do not serve to increase revenues by directly connecting the infrastructure replacement to new customers;

(2) are in service but were not included in the gas utility's rate base in its most recent general rate case, or are planned to be in service during the period covered by the report submitted under subdivision 2, but in no case longer than the one-year forecast period in the report; and

(3) do not constitute a betterment, unless the betterment is based on requirements by a political subdivision or a federal or state agency, as evidenced by specific documentation, an order, or other similar requirement from the government entity requiring the replacement or modification of infrastructure.

(c) "Gas utility projects" means:

(1) replacement of natural gas facilities located in the public right-of-way required by the construction or improvement of a highway, road, street, public building, or other public work by or on behalf of the United States, the state of Minnesota, or a political subdivision; and

(2) replacement or modification of existing natural gas facilities, including surveys, assessments, reassessment, and other work necessary to determine the need for replacement or modification of existing infrastructure that is required by a federal or state agency.

Subd. 2. **Gas infrastructure filing**. A public utility submitting a petition to recover gas infrastructure costs under this section must submit to the commission, the department, and interested parties a gas infrastructure project plan report and a petition for rate recovery of only incremental costs associated with projects under subdivision 1, paragraph (c). The report and petition must be made at least 150 days in advance of implementation of the rate schedule, provided that the rate schedule will not be implemented until the petition is approved by the commission pursuant to subdivision 5. The report must be for a forecast period of one year.

Subd. 3. **Gas infrastructure project plan report**. The gas infrastructure project plan report required to be filed under subdivision 2 shall include all pertinent information and supporting data on each proposed project including, but not limited to, project description and scope, estimated project costs, and project in-service date.

Subd. 4. **Cost recovery petition for utility's facilities**. Notwithstanding any other provision of this chapter, the commission may approve a rate schedule for the automatic annual adjustment of charges for gas utility infrastructure costs net of revenues under this section, including a rate of return, income taxes on the rate of return, incremental property taxes, incremental depreciation expense, and any incremental operation and maintenance costs. A gas utility's petition for approval of a rate schedule to recover gas utility infrastructure costs outside of a general rate case under section 216B.16 is subject to the following:

(1) a gas utility may submit a filing under this section no more than once per year; and

(2) a gas utility must file sufficient information to satisfy the commission regarding the proposed GUIC. The information includes, but is not limited to:

(i) the information required to be included in the gas infrastructure project plan report under subdivision 3;

(ii) the government entity ordering or requiring the gas utility project and the purpose for which the project is undertaken;

(iii) a description of the estimated costs and salvage value, if any, associated with the existing infrastructure replaced or modified as a result of the project;

(iv) a comparison of the utility's estimated costs included in the gas infrastructure project plan and the actual costs incurred, including a description of the utility's efforts to ensure the costs of the facilities are reasonable and prudently incurred;

(v) calculations to establish that the rate adjustment is consistent with the terms of the rate schedule, including the proposed rate design and an explanation of why the proposed rate design is in the public interest;

(vi) the magnitude and timing of any known future gas utility projects that the utility may seek to recover under this section;

(vii) the magnitude of GUIC in relation to the gas utility's base revenue as approved by the commission in the gas utility's most recent general rate case, exclusive of gas purchase costs and transportation charges;

(viii) the magnitude of GUIC in relation to the gas utility's capital expenditures since its most recent general rate case; and

(ix) the amount of time since the utility last filed a general rate case and the utility's reasons for seeking recovery outside of a general rate case.

Subd. 5. **Commission action**. Upon receiving a gas utility report and petition for cost recovery under subdivision 2 and assessment and verification under subdivision 4, the commission may approve the annual GUIC rate adjustments provided that, after notice and comment, the costs included for recovery through the rate schedule are prudently incurred and achieve gas facility improvements at the lowest reasonable and prudent cost to ratepayers.

Subd. 6. **Rate of return**. The return on investment for the rate adjustment shall be at the level approved by the commission in the public utility's last general rate case, unless the commission determines that a different rate of return is in the public interest.

Subd. 7. **Commission authority; rules**. The commission may issue orders and adopt rules necessary to implement and administer this section.