

September 26, 2019

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
Saint Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E,G002/D-19-490

Dear Mr. Wolf:

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

The Petition of Northern States Power Company d/b/a Xcel Energy for Approval of the Annual Update of Remaining Lives and Depreciation Rates for Transmission, Distribution, and General Accounts.

The Petition was filed on July 31, 2019 by:

Laurie J. Wold, Senior Accounting Manager
Xcel Energy
414 Nicollet Mall, 401 – 3rd Floor
Minneapolis, MN 55401
(612) 330-5510

The Department recommends that the Commission **approve Xcel Energy's Petition**. The Department is available to answer any questions that the Minnesota Public Utilities Commission may have.

Sincerely,

/s/GEMMA MILTICH
Financial Analyst, CPA

GM/ja
Attachment



Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E,G002/D-19-490

I. INTRODUCTION

On July 31, 2019, Northern States Power Company, doing business as Xcel Energy (Xcel or the Company) filed its 2019 Annual Update of Remaining Lives and Depreciation Rates for Transmission, Distribution, and General Accounts (Petition) with the Minnesota Public Utilities Commission (Commission). This update reflects the passage of one year and the 2018 plant activity impacting Xcel's transmission, distribution, and general plant account remaining lives and depreciation rates. On September 5, 2019, the Company filed a corrected Petition Schedule F. Xcel requests Commission approval for the depreciation parameters proposed in its Petition. Specifically, the Company proposes to:

- Update depreciation rates and remaining lives, as outlined in Petition Schedules A and C, respectively.
 - For Xcel Electric and Xcel Gas combined, these proposals would result in an overall \$1,275,358, or 0.37 percent, net decrease in annual depreciation expense compared to the depreciation expense under currently approved rates.¹
 - For Xcel Electric, the Company's proposals would net to an overall decrease of \$1,948,659 in depreciation expense.
 - For Xcel Gas, the Company's proposals would net to an overall increase of \$673,301.
- Implement the proposed depreciation parameters on January 1, 2020.
- Account for its new Advanced Grid Intelligence and Security (AGIS) software for Xcel Electric under the 10-year life category of Federal Energy Regulatory Commission (FERC) Account 303 – *Computer Software*, once the AGIS software is placed into service in 2020.

In addition, based on Xcel's review of its FERC Account 390 – *Structures & Improvements* (Account 390), the Company proposes to:

¹ The Commission most recently approved depreciation rates in Docket No. E,G002/D-18-523; these rates were effective January 1, 2019. In Petition schedule B, page 3 of 3, Xcel provides a comparison of the total depreciation expense accrual that would result under the currently approved and proposed depreciation rates. For this comparison, Xcel applied the current and proposed depreciation rates to the Company's plant balances as of December 31, 2018, which means that these depreciation expense accruals are theoretical estimates and do not reflect the actual depreciation expense that Xcel will book. Calculation of 0.37 percent is as follows:

$$(\$346,655,826 \text{ depreciation expense using current rates} - \$345,380,469 \text{ depreciation expense using proposed rates}) / (\$346,655,826) = 0.0037.$$

- Transfer \$2,706,248 of property out of Account 390 and into other utility accounts.
- Transfer \$634,844 of property out of Account 390 and into non-utility accounts, but keep the associated \$172,791 depreciation reserve in Account 390.
- Retire \$392,371 of property under Account 390.

II. DEPARTMENT ANALYSIS

The Minnesota Department of Commerce, Division of Energy Resources (Department) reviewed Xcel's Petition to (1) determine whether the Petition complies with applicable statutes, rules, and Commission orders, (2) evaluate the reasonableness of Xcel's proposals, and (3) examine the 2018 depreciation expenses accruals as well as the 2018 capital additions, retirements, transfers, and adjustments, as these factors impact the development of proposed depreciation parameters. The Department also contemplated how Xcel's proposals could affect ratepayers. The following sections discuss the Department's review.

A. COMPLIANCE WITH DEPRECIATION STATUTES, RULES, AND FILING REQUIREMENTS

Minnesota Statutes, §216B.11 and Minnesota Rules, parts 7825.0500-7825.0900, require public utilities to seek Commission approval of their depreciation rates and methods. Utilities must file comprehensive depreciation studies at least once every five years and must use Straight Line depreciation, unless the utility can justify a different method. Xcel filed its last 5-year depreciation study in 2017 under Docket No. E,G002/D-17-581 and continues to use a Straight Line depreciation methodology.

In determining the depreciable (useful) lives of their capital assets, utilities may choose to apply an average service life (ASL) or remaining life technique. When utilities opt to use the ASL technique to depreciate group property, the life and salvage factors, as well as the resulting depreciation rates, remain unchanged between studies. Conversely, when companies use the remaining life technique for depreciating group property, the underlying life and salvage factors may not change, but depreciation rates must be updated annually to reflect the passage of time and the impact of plant activity, such as additions and retirements, on remaining lives. A utility is required to file annual depreciation study updates when the remaining life technique is used; these updates give the Commission an opportunity to approve changes in depreciation rates. Because Xcel uses an average remaining life (ARL) technique, it follows that the Company must submit depreciation study updates on an annual basis. The instant Petition provides the current year update as required.

The Department concludes that Xcel's Petition complies with the applicable statutes and rules.

B. COMPLIANCE WITH PRIOR COMMISSION ORDERS

Pursuant to the Commission's May 4, 2018 *Order* in Docket No. E,G002/D-17-581, Xcel began filing annual updates for the remaining lives and depreciation rates for its transmission, distribution, and

general accounts, on July 31, 2018. The instant Petition was submitted by the Company as the second required annual update. Xcel also included the following information in its Petition in compliance with prior Company commitments and Commission orders:

- A comparison of currently approved and proposed average remaining lives.²
- A listing of the buildings included in the FERC Account 390 – *Structures and Improvements*, with information on building cost, depreciation reserve, depreciation rate and method, in-service date, address or location, and operational purpose.³

C. XCEL'S DEPRECIATION METHODOLOGY

As a capital asset is used in operations, it contributes, either directly or indirectly, to an entity's cash flows. Depreciation is a cost allocation method that allows an entity to approximately match the revenues generated by an asset with the cost of the asset over its useful life. It follows then that an asset's depreciable life and corresponding depreciation rate should generally align with the time period in which the asset is used and useful.

1. Recent Change from Average Service Life to Average Remaining Life Method

Xcel recently transitioned from using an ASL to ARL depreciation methodology. The ARL method Xcel proposed in its 2017 depreciation filing⁴ was approved by the Commission in the Company's earlier five-year depreciation study under Docket No. E,G002/D-12-858. However, Xcel did not adopt the change at the time of initial approval, due to the treatment afforded to the theoretical surplus in its 2012 and 2013 electric rate cases. The Company ultimately adopted the ARL method following Commission approval of Xcel's five-year 2017 depreciation study; this method amortizes the differences between theoretical and actual depreciation reserve over the relevant ARL, creating an automatic true-up of these differences.⁵

2. Summary of Overall Depreciation Methodology

Xcel stated that all of the Company's annual depreciation accrual rates were determined using a Straight Line, Broad Group, Remaining Life depreciation system.⁶ As applicable, the Company assigns

² Xcel provided an average remaining lives comparison in Petition Schedule C in compliance with Xcel's prior commitment to do so in its September 17, 2018 Reply Comments at page 1 in Docket No. E,G002/D-18-523.

³ Xcel's building information was provided in Petition Schedule H in compliance with order point 5 of the Commission's February 19, 2019 *Order* in Docket No. E,G002/D-18-523.

⁴ Docket No. E,G002/D-17-581.

⁵ Actual depreciation reserve is based on previously approved, historical depreciation rates and asset lives; this amount is the depreciation reserve actually recorded, or booked, by Xcel. Theoretical depreciation reserve is calculated by applying the currently approved depreciation assumptions as if they had been in place since the beginning of the assets' useful lives. Ideally, differences between the actual and theoretical reserve would be small and become even smaller over the course of an asset's life.

⁶ Petition at page 6.

survivor curves,⁷ average service lives, and net salvage rates to its FERC accounts and uses these parameters to determine appropriate average remaining lives and depreciation rates. On pages 4 through 6 of its Petition, Xcel provided a discussion of the Company's multi-step process for developing remaining life and depreciation rate proposals.

D. XCEL'S PROPOSED DEPRECIATION PARAMETERS

In its Petition, Xcel stated that the instant filing "presents the change in remaining lives and depreciation rates solely due to plant changes throughout 2018."⁸ Xcel proposes to update the depreciation rates and remaining lives for the Company's existing FERC accounts, as outlined in Petition Schedules A and C, respectively. The Company seeks an effective date of January 1, 2020 for the proposed depreciation parameters. The following Table 1 summarizes the net annual depreciation expense impact of Xcel's proposals:

Table 1: Impact of Xcel's Proposals on Theoretical Estimate of Annual Depreciation Expense⁹

	<i>Annual Depreciation Expense Increase/(Decrease) BEFORE Allocations (\$)</i>	<i>Common Utility Allocations (\$)</i>	<i>Annual Depreciation Expense Increase/(Decrease) AFTER Allocations (\$)</i>
Electric Utility	(2,324,175)	375,517	(1,948,659)
Gas Utility	676,540	(3,239)	673,301
Common Utility	372,277	(372,277)	0
<i>Net Estimated Impact</i>	<i>(1,275,358)</i>	<i>0</i>	<i>(1,275,358)</i>

Table 1 above shows a theoretical estimate of the net dollar impact of Xcel's proposals on the Company's annual depreciation expense. These theoretical computations can be seen in Petition Schedule B, in which Xcel applies its current and proposed depreciation parameters to plant balances as of December 31, 2018. The results of these comparative calculations show annual depreciation accruals of \$346,655,826, using currently approved parameters, and \$345,380,469, using proposed parameters. This annual depreciation expense comparison is theoretical, because neither depreciation accrual represents the amount that will actually be booked by the Company, nor does it represent how Xcel actually calculates depreciation expense throughout the year. Rather, it is probable that the Company will book an annual depreciation expense for 2020 that is larger than the estimates documented in Petition Schedule B, because the approved depreciation rates will likely be applied to 2020 plant balances that are higher¹⁰ than those at December 31, 2018. In addition, Xcel calculates depreciation on a monthly basis throughout the year, instead of using a single, annual calculation.

⁷ Survivor curves refer to statistical curves that represent a probability distribution of the timing of asset retirements. Xcel does not assign survivor curves to all accounts; see the survivor curve assignments to Xcel's FERC accounts in the Company's initial filing under Docket No. E,G002/D-17-581, Schedule D, Appendix C: Parameter Comparison.

⁸ Petition at page 4.

⁹ Table 1 data retrieved from Petition Table 1.

¹⁰ Capital additions, transfers, and upward adjustments will likely outweigh retirements.

Xcel did not request any changes to the average service lives, net salvage rates, or asset retirement distribution curves¹¹ previously established in the Company's most recent five-year depreciation study.¹² Because the instant filing is an annual update, rather than a comprehensive, five-year depreciation study, the Department concludes that it is reasonable for these depreciation parameters to remain unchanged.

The Department notes that a plant account's remaining life is generally a function of its average service life, assumed survivor curve, and the age of property in the account, which is tracked by vintage. Thus, even when an account's assumed average service life does not change, plant additions can lengthen the account's remaining life, as the new property will be expected to survive longer than older property in the account. Similarly, retirements of older property in an account can also lengthen the account's remaining life, as the weighted average age of the property in the account would decrease. Barring a change in the age-makeup of property in an account, its remaining life would be expected to decrease by approximately one year from one depreciation study to the next if the account's average service life does not change.¹³

The Department concludes that Xcel's proposed depreciation parameters for the Company's existing accounts are reasonable and recommends that the Commission approve Xcel's proposals. The Department also recommends that the Commission approve the Company's proposed effective date of January 1, 2020.

E. RETURN DEPRECIATION EXPENSE DECREASE THROUGH XCEL'S CAPITAL TRUE-UP

In Xcel's 2018 depreciation filing,¹⁴ the Commission required Xcel to return the net decrease in electric utility depreciation expense to ratepayers through the Company's capital true-up filing under E002/GR-15-826.¹⁵ The 2018 depreciation docket was effective January 2019, the beginning of the last year of Xcel's multi-year rate case in E002/GR-15-826. Since the expectation is that Xcel will make a rate filing for 2020 in the near future, the Department recommends that the Commission similarly reserve the right to require Xcel to return the \$1,948,659¹⁶ net decrease in the electric utility depreciation expense to ratepayers through a capital true-up or other mechanism, for 2020.

F. MAJOR FUTURE ADDITIONS AND RETIREMENTS

Xcel explained in its Petition that the Company plans to place a new Advanced Grid Intelligence and Security (AGIS) software product into service for Xcel Electric during 2020. According to Xcel, this new software is necessary to run the related Advanced Metering Infrastructure (AMI). Xcel stated that the

¹¹ Petition at page 4.

¹² Docket No. E,G002/D-17-581.

¹³ Due to the probabilistic nature of the remaining life calculation, the remaining life of an account that has had no additions, retirements, transfers, etc., would actually be expected to decline by slightly less than one year.

¹⁴ Docket No. E,G002/D-18-523.

¹⁵ Commission's February 19, 2019 *Order* in Docket No. E,G002/D-18-523.

¹⁶ Petition Table 1.

AGIS software is fundamentally and functionally similar to the Company's other large underlying base systems and, therefore, the Company requested approval to account for the new software in the 10-year life category of FERC Account 303 – *Computer Software* (Account 303) under the Company's Electric Utility segment. Xcel noted in its proposal that the Commission previously approved the 10-year life category of Account 303 for the Company's Common Utility segment.¹⁷

In response to a Department information request, Xcel explained that it expects to capitalize approximately \$3.8 million for the AGIS-related software and place the asset in service in December of 2020, with an annual depreciation rate of 10 percent. Assuming that Xcel is able to have this asset in place prior to the end of 2020, this estimated capitalization would correspond to a relatively minor \$0.032 million increase in the Company's annual depreciation expense for 2020, followed by an annual depreciation expense of \$0.38 million in 2021.¹⁸ The Department concludes that the account categorization requested by Xcel for the new AGIS-related software is reasonable, given its similarity to Xcel's other software assets accounted for in the 10-year life category of Account 303.

Xcel stated in its Petition that, with the exception of the AGIS-related software, the Company "does not anticipate any other major future addition or retirement in the electric, gas, or common utility plant accounts that would materially affect the depreciation rates recommended in this filing."¹⁹ In response to a Department information request, Xcel further explained that it uses qualitative rather than quantitative criteria to determine whether a future capital addition or retirement qualifies as "major" enough to report in the Company's annual depreciation filings. The Company considers the impact of future additions and retirements on the current depreciation rates, lives, net salvage, and other parameters when deciding whether to report them in a depreciation update. However, a future addition or retirement with a large dollar impact on annual depreciation expense may not be considered reportable if it does not affect the depreciation rates, lives, or net salvage associated with the account.²⁰

G. XCEL'S PROPOSALS RELATED TO ACCOUNT 390 – STRUCTURES & IMPROVEMENTS

Through its review of Account 390, Xcel identified \$634,844 worth of properties that serve no utility operational purpose. The collective allocated depreciation reserve associated with these assets is \$172,791. The largest location within this group of assets is the Big Oaks Recreation Park, with a historical cost of \$592,105. The Company proposes to transfer the \$634,844 of property to non-utility accounts, while continuing to keep the \$172,791 of depreciation reserve in Account 390.²¹ Specifically, Xcel proposes to allocate the \$172,791 reserve to electric utility property remaining in Account 390 and keep this amount in the account's depreciation reserve until the associated utility assets are retired. Keeping the \$172,791 in depreciation reserve and removing the \$634,844 of property from

¹⁷ Petition at page 8.

¹⁸ Department Attachment 6.

¹⁹ Petition at page 8.

²⁰ Department Attachment 6.

²¹ Petition at page 10.

Account 390 reduces the rate base on which Xcel is permitted to earn a return. Thus, the Company's proposal affords customers some rate base benefit and prevents customers from losing the rate base benefit achieved through what they have already paid for these assets.²²

The Department concludes that Xcel's proposal reasonably resolves the ratepayer impact of the Company's previous misclassification of non-utility property and believes that, given the relatively small dollar amount involved, a direct refund to ratepayers would be impractical and uneconomical. The Department recommends that the Commission permit Xcel to (1) transfer \$634,844 of building assets out of Account 390 and into non-utility accounts and (2) keep the associated \$172,791 of depreciation reserve in Account 390 until the utility assets to which this reserve amount is allocated are retired.

Xcel also identified \$2,706,248 worth of properties that have operational purposes related to production or transmission activities.²³ Xcel proposes to transfer these assets to other utility accounts during 2019 and reflect the transfer in a partial year depreciation impact. The Department confirmed with Xcel that these transfers would have a minimal depreciation expense impact, resulting in a Company-estimated annual depreciation expense increase of \$52,494.²⁴ The Company also provided a breakdown of the specific accounts to which it intends to transfer the \$2,706,248; the Electric Utility Account 352 – *Transmission Structures & Improvements* will receive the largest transfer amount of any one account at \$1,513,035.²⁵

The Department concludes that Xcel's proposal is reasonable and recommends that the Commission permit the Company to transfer the \$2,706,248 of property out of Account 390 and into other utility accounts.

Although the misclassifications discovered by Xcel through its review of Account 390 are relatively minor in the context of the whole account, the Department deemed it relevant to gain additional understanding around whether and how the Company reviews the classification and status of assets held in its regulatory accounts. In response to a Department information request Xcel explained the following:

Xcel Energy has a multi-departmental process for reviewing capital projects for both additions to plant and retirements of assets. The Capital Asset Accounting Department has provided policies and guidelines to Operations and Finance to assist with proper FERC classification and business segmentation of assets. When projects are in serviced and completed, Capital Asset Accounting also does a review of accounts and

²² Department Attachment 3.

²³ Petition at page 10.

²⁴ When assets are transferred between FERC accounts, and the relevant FERC accounts have different depreciation parameters and assumptions, depreciation expense may be impacted.

²⁵ Department Attachment 4.

property units. The Financial Reporting and Data Governance Department also has a master data process for project creation with a rigid set of rules to prevent invalid classification when projects are created. The Company feels these front end validations and controls most effectively balance the costs and benefits of resources expended in validation versus data integrity and accuracy.²⁶

The Department appreciates Xcel providing these insights around its internal control procedures.

H. ACCOUNTING METHODOLOGY FOR ACCOUNT 390 – STRUCTURES & IMPROVEMENTS

In recent proceedings, the Department recommended that two Minnesota utilities, Minnesota Energy Resources Corporation (Docket Nos. G011/GR-17-563) and Minnesota Power (E015/D-18-544), develop proposals to modify their use of a group accounting methodology for larger building assets included in Account 390 – *Structures & Improvements*. These recommendations originated from a building depreciation issue encountered in MERC's prior rate case under Docket No. G011/GR-17-563. The Commission has issued several different orders addressing utility depreciation practices for Account 390. The Department believes that the building depreciation issues identified for these other Minnesota utilities are also relevant to Xcel Energy; therefore, we make corresponding recommendations in the instant Comments.

1. Group Accounting – Appropriate Applications and Potential Issues

Under a group accounting methodology, a single average service life (ASL) is estimated and assigned to a property group with the understanding that there will be dispersion in the actual ages reached by the property units in the group. The grouped units will retire at various ages reached before, at, or after the assigned ASL. A property unit that retires prior to reaching the ASL will, in a notional sense, cause the utility to incur a loss, because the unit will be under-depreciated and could be thought to have positive book value at the time of its retirement. Conversely, a property unit that retires later than the ASL will, in a notional sense, cause the utility to incur a gain, because the unit will be over-depreciated and could be thought to have negative book value at the time of its retirement. Group depreciation assumes that the impact of early retirements will be offset by the impact of late retirements:

Under group depreciation, no gain or loss is recognized for retirement of individual assets. Upon retirement of an asset from the group, the cost of the asset is debited to the accumulated depreciation account and credited to the asset account. Any gross salvage received for the retired asset is credited to the accumulated depreciation account and any cost of removal is debited to the accumulated depreciation account. Under group depreciation, since the accumulated depreciation relates to the entire group rather than to specific assets within the group, no gain or loss is

²⁶ Department Attachment 5.

recognized. This assumes that the group depreciation rate is accurate for the group as a whole and that the cost of the retired asset, net of gross salvage and cost of removal, is being fully provided for in the accumulated depreciation account.²⁷

Group accounting can be appropriate for accounts with large volumes of relatively low-cost property items that have similar functions and characteristics. For example, a group depreciation methodology is typically applied to assets such as utility meters, because tracking each of the tens of thousands (or, in some cases, significantly more) units individually for depreciation and retirement purposes would be impractical. Relatedly, due to the large number of meters typically owned by even a small utility, each individual meter represents only a tiny fraction of the total plant balance booked to meters group, and therefore even an extraordinarily early or late retirement of a single meter will not have a material effect on the group as a whole. However, for accounts with low numbers of relatively high-value assets that serve different operational purposes, the retirement of an individual asset may have a significant impact on depreciation. For example, if a utility retires a high-value building in Account 390 long before it reaches the account ASL, this retirement could have a significant impact on the depreciation expense of the account as a whole.

2. Xcel's Depreciation Practices and Department Recommendations for Account 390 – Structures & Improvements

In Schedule H of the current Petition, Xcel provided a listing of its buildings included in Account 390 and the corresponding property details (i.e. in-service date, historical cost, accounting methodology, etc.). To provide perspective on the proportion of Xcel's Account 390 that is comprised of relatively high-value structures, the Department compared cost and depreciation reserve data for those buildings with capitalization of \$4 million or more to the remaining structures in Account 390. The following Table 2 summarizes this comparison by utility segment.

²⁷ Public Utility Depreciation Practices. (August, 1996). National Association of Regulatory Utility Commissioners. Page 49.

Table 2: Summary of Xcel's Account 390 – Structures & Improvements²⁸

<i>Asset</i>	<i>Historical Cost (\$)</i>	<i>Percentage of Historical Cost in Account 390 by Segment</i>	<i>Allocated Depreciation Reserve (\$)</i>	<i>Percentage of Allocated Depreciation in Account 390 by Segment</i>
Electric (58 Total Structures)				
Chestnut Service Center	16,126,969	22%	7,329,646	26%
Maple Grove Material Complex	21,785,691	30%	10,181,777	37%
Montevideo Office & Center	4,209,481	6%	505,449	2%
Shorewood Service Center	4,178,423	6%	1,150,697	4%
<i>High-Value Structure Subtotal</i>	46,300,564	64%	19,167,569	69%
All Other Electric Segment Structures	26,069,214	36%	8,594,833	31%
<i>Electric Segment Total</i>	72,369,778	100%	27,762,402	100%
Gas (6 Total Structures)				
All Gas Segment Structures ²⁹	1,187,346	100%	120,652	100%
<i>Gas Segment Total</i>	1,187,346	100%	120,652	100%
Common³⁰ (59 Total Structures)				
Centre Pointe Office Building	6,341,418	3%	1,019,365	3%
Chestnut Service Center	5,817,473	3%	703,628	2%
General Office Building	75,797,441	38%	12,145,507	42%
Hugo Training Center	10,788,665	5%	1,052,874	4%
Maple Grove Material Complex	13,020,554	7%	1,397,141	5%
Newport Office & Service Center	5,374,087	3%	993,858	3%
Rice St Service Center	13,875,213	7%	2,574,623	9%
St Cloud Office & Service Center	8,744,759	4%	1,107,406	4%
White Bear Lake Service Center	5,450,109	3%	910,720	3%
Winona Service Center	6,106,509	3%	648,580	2%
<i>High-Value Structure Subtotal</i>	151,316,229	76%	22,553,703	77%
All Other Common Segment Structures	47,811,378	24%	6,618,030	23%
<i>Common Segment Total</i>	199,127,607	100%	29,171,733	100%
GRAND TOTAL FOR ALL SEGMENTS	272,684,731		57,054,787	

²⁸ Data in Table 2 retrieved from and calculated per Petition Schedule H information, unless otherwise noted.

²⁹ Petition Schedule H listed 6 Gas segment structures, each with a capitalization amount of less than \$500,000. The Department combined these Gas segment structures into a single total for Table 2.

³⁰ Petition Schedule H lists Asset "401 Nicollet (Leased)" with a historical cost of 18,216,455. The Department did not separately list this asset in Table 2, because this location is leased and therefore depreciated using an "end of life" (not ARL) methodology.

Table 2 shows that for both the Common and Electric utility segments, the majority of the historical cost and depreciation reserve in Xcel's Account 390 are comprised of the minority of the structures included in the account.³¹

Because the Department has the same concerns with Xcel's group depreciation practices as for other Minnesota utilities, the Department recommends that, in regard to Account 390, Xcel provide a proposal in its reply comments that explains how the Company:

- Determines which structures should be removed from the group to be depreciated separately, and which should remain in the group.
- Allocates the existing depreciation reserve among structures that should be removed from the larger group and those that remain in the group.
- Determines the remaining lives for structures that should be removed from the group and the remaining life for the group.

This recommendation is consistent with the Commission's *Order* to Minnesota Power under Docket No. E015/D-18-544.

I. ANNUAL DEPRECIATION EXPENSE ACCRUALS

In Petition Schedule E, Xcel reported a total annual depreciation expense accrual of \$339,706,623 for 2018. The following Table 3 summarizes select plant-in-service activity and depreciation provisions for the Company between 2016 and 2018.

Table 3: Xcel's Plant-In-Service and Depreciation Provision Summary 2016 – 2018³²

<i>Year</i>	<i>Plant Balance at December 31 (\$) A</i>	<i>Increase in Plant Balance (\$) B</i>	<i>Annual Depreciation Expense Booked (\$) C</i>	<i>Depreciation Reserve Balance at December 31 (\$) D</i>	<i>Increase in Depreciation Reserve Balance (\$) E</i>	<i>Depreciation Reserve Ratio F = D/A</i>
2018	10,314,768,638	752,468,224	339,706,623	3,362,417,120	316,976,827	33%
2017	9,562,300,414	330,983,521	321,168,550	3,045,440,293	52,699,636	32%
2016	9,231,316,893	N/A	242,445,994	2,992,740,657	N/A	32%

³¹ In Table 2, the Department documents the total number of structures listed under each utility segment per Xcel's Petition Schedule H. However, the Department notes that Xcel allocates the cost of some of these structures among two or more of the Company's utility segments, meaning that some structures are listed more than once in Petition Schedule H (i.e. the same structure may be listed under multiple utility segments). By the Department's count, Petition Schedule H lists a total of 123 structures under Xcel's utility segments, but, of these structures, only 88 have a unique asset description and address combination.

³² Figures documented in Table 3 were retrieved from Docket Nos. E,G002/D-17-581 (2016), E,G002/D-18-523 (2017), and E,G002/D-19-490 (2018).

The data documented in Table 3 above show that, over time, the Company's reserve ratio increased slightly and that Xcel continues to invest in its system, with an increase in plant balance during 2018 that is more than double the corresponding figure for 2017.

1. Department's Evaluation of Xcel's 2018 Depreciation Expense Accruals by FERC Account

The Department performed a high-level analysis of Xcel's 2018 depreciation expense accruals³³ by FERC account to determine whether the accruals align with the depreciation rates approved for 2018.³⁴ The Department approximated the Company's 2018 depreciation accruals by applying the approved depreciation rates to the beginning, ending, and average plant balances for 2018. We then compared these approximations to the actual 2018 depreciation expense accruals reported by Xcel and requested the detailed depreciation calculations for those accounts with accruals that varied significantly from the Department's estimations. In response to a Department information request, Xcel explained that (1) providing these calculations would require "a significant amount of time and resources" and (2) "for the accounts requested [by the Department] there are assets within the beginning and ending plant that are fully depreciated and no depreciation expense is recorded for several or all months during 2018."³⁵

The Company did provide the detailed depreciation calculations for one account, Account 303 – *Computer Software 5 Year*, to illustrate the relationship between 2018 plant balances that include fully depreciated plant balances and the resulting depreciation expense accrual. The Department concludes that the combination of Xcel's explanations and the illustrative example of Account 303 – *Computer Software 5 Year* provide sufficient evidence to support the reasonableness of the Company's 2018 depreciation expense accruals. However, the Department recommends that the Commission require that Xcel provide in its future depreciation filings a supplemental plant-in-service activity schedule that excludes the fully depreciated plant from the overall beginning and ending plant balances of Xcel's FERC accounts.

J. 2018 CAPITAL ASSET ADDITIONS, RETIREMENTS, TRANSFERS, AND ADJUSTMENTS

The Department reviewed Xcel's 2018 depreciation expense accruals as well as the 2018 capital additions, retirements, transfers, and adjustments, keeping in mind that these factors impact the development of the Company's proposed depreciation rates and estimated future depreciation expense accruals. The following Table 4 provides a summary of the 2018 plant activity in Xcel's primary plant categories.

³³ Petition Schedule E.

³⁴ The Commission approved depreciation rates effective January 1, 2018 in Docket No. E,G002/D-17-581.

³⁵ Department Attachment 1.

Table 4: 2018 Changes in Xcel's Primary Plant Balances³⁶

<i>Primary Plant Asset Categories</i>	<i>Plant Balance 1/1/2018</i>	<i>Additions</i>	<i>Retirements</i>	<i>Transfers</i>	<i>Balance 12/31/2018</i>
Electric					
Intangible	360,945,912	37,617,867	(9,453,519)	-	389,110,261
Transmission	3,592,223,145	26,966,322	(16,621,182)	(413,484)	3,702,154,801
Distribution (MN)	3,473,983,005	164,126,185	(31,417,677)	533,546	3,607,225,059
General	545,505,161	55,662,967	(8,634,539)	1,208,007	593,741,596
Gas					
Intangible	6,496,125	1,472,242	(338,985)	-	7,629,381
Transmission	86,362,251	20,284,390	(246,794)	-	106,399,847
Distribution (MN)	986,236,226	73,861,820	(3,542,576)	-	1,056,555,470
General	49,360,621	10,639,569	(28,025)	(19,995)	59,952,171
Common					
Intangible	370,147,918	54,201,092	8,345,036	-	432,694,045
General	339,863,914	37,572,680	(18,150,582)	19,995	359,306,007

Table 4 shows that each of the Company's primary plant categories had a higher ending than beginning balance, meaning that 2018 additions and upward adjustments outweighed the corresponding retirements and downward adjustments. The following sections discuss select aspects of the Company's 2018 depreciation and plant activity in greater detail.

1. 2018 Negative Capital Additions

The Company documented \$9,355,083 of negative, as opposed to positive, capital additions in Petition Schedule D for the following accounts:

- Electric Account 354 – *Towers & Fixtures*
- Electric Account 397 – *Comm. & Telecomm. Equipment – EMS*
- Gas Account 380 – *Services – Metallic*
- Gas Account 397 – *Communication Equipment*

Because capital additions are generally positive amounts, the Department requested that Xcel provide the reasons behind the 2018 negative capital addition transactions. Xcel explained that for each of the accounts bulleted above, the negative additions were due to "cross-year movement between plant subaccounts" that occurred through the process of transferring amounts from *Completed Construction Not Classified* (CCNC), Account 106, to *Plant In Service*, Account 101.³⁷ The Department appreciates Xcel's provision of additional information and concludes that the Company has reasonably explained the 2018 negative capital additions.

³⁶ Data in Table 4 retrieved from Petition Schedule D.

³⁷ Department Attachment 9.

2. 2018 Capital Transfers Reducing Plant Balances

In Petition Schedule D, Xcel documented various capital transfers that increased or reduced plant balances during 2018. For some of the transfers that reduced plant balances during 2018, the Department asked the Company to disclose whether the assets transferred were included in Xcel's current rate base, and, if so, disclose (1) the actual assets transferred and (2) to which entity and account the assets were transferred. If a capital asset is built into the current rate base on which a utility earns a return, the Department expects that the utility will not transfer that asset to a different business entity. As requested, the Company provided information on the \$916,942³⁸ of negative transfers under the Electric Utility segment in the following accounts:

- 350 – *Land – Fee*
- 352 – *Structures & Improvements*
- 353 – *Station & Equipment*
- 355 – *Poles & Fixtures*

The Department verified that the data supplied by Xcel confirms that the relevant assets transfers stayed within Northern States Power Company – Minnesota and were not transferred to other business entities.³⁹ The Department appreciates the Company's provision of this information and concludes that the transfers that reduced plant balances during 2018 did not inappropriately impact the Company's rate base.

3. Account 356 – Overhead Conductors & Devices, Positive Retirement

As requested, Xcel provided the Department with an explanation around why the Company reports a positive, as opposed to negative, retirement amount of \$567,196⁴⁰ under the Electric Utility Account 356 – *Overhead Conductors & Devices*. According to Xcel:

In 2018, the Company identified that retirements to this account were being automatically retired based on the curve rather than specifically retired due to a system interface issue. The interface issue was corrected to stop the auto-retirement. The Company then "unretired" those assets that had been automatically retired and subsequently retired a corresponding number of assets on a specific first in-first out methodology. Since older assets have less plant basis than newer assets as well as some of these unretirements crossed over years, the net retirement transactions in 2018 were positive. If you looked at the account from a life-to-date perspective, the auto-retire and unretirement transactions would net to

³⁸ Petition Schedule D.

³⁹ Department Attachment 10.

⁴⁰ Petition Schedule D.

zero while the specifically retired transactions would then appropriately be a negative amount.⁴¹

The Department appreciates Xcel's provision of this explanation and concludes that the positive retirement value documented for Account 356 – *Overhead Conductors & Devices* has been reasonably explained.

4. *Account 303 – Computer Software 10 Year, “Unretired” Customer Resource System Software*

The Company notes in Schedule D that in 2018 it “unretired” \$43,267,319 worth of software under the Common Utility Account 303 – *Computer Software 10 Year* after discovering that the Company is still using these previously retired software assets. In response to a Department information request, Xcel expressed that it anticipates using this “unretired” Customer Resource System (CRS) software for a minimum of about four years. The CRS software had an approved amortization period of 10 years and was fully amortized by 2016.⁴² The Department appreciates the Company providing additional information around its expected future use of this software and concludes that the reported “unretirement” of \$43,267,319 under Account 303 – *Computer Software 10 Year* has been reasonably explained.

K. *NEW FERC ACCOUNTS ADDED TO DEPRECIATION SCHEDULES IN CURRENT FILING*

The depreciation schedules in the current Petition include Accounts 301 – *Intangible Organization Costs* (Account 301) and 302 – *Franchise and Consents* (Account 302). Xcel did not include these two accounts in its previous depreciation studies submitted in 2017 or 2018. However, the majority of the capitalization under these accounts is not new to this year. Xcel's response to the Department information request regarding these two accounts, is summarized in the following Table 5:

⁴¹ Department Attachment 7.

⁴² Department Attachment 8.

Table 5: Summary of Account 301 – Intangible Organization Costs and Account 302 – Franchise & Consents⁴³

<i>Account</i>	<i>Description of Capitalized Costs</i>	<i>2018 Amortization Expense⁴⁴</i>	<i>Total Plant Balance at 12/31/2018⁴⁵</i>
Account 301	Office expenses incidental to organizing the utility and associated with Xcel's corporate headquarters in Minneapolis.	N/A ⁴⁶	\$100,608
Account 302	<ul style="list-style-type: none"> • License costs for the Monticello and Prairie Island nuclear facilities. • License costs for the Hennepin Island hydro plant. • Various electric and gas distribution franchises and consents with cities. 	\$12,716,221	\$250,337,957

Table 5 shows that Account 302 contains a significant amount of capitalized costs and has a notable amortization expense impact. Xcel explained that, per the Company's Franchises & Consents Uniform Policy, capitalized costs under Account 302 are amortized over the life of the relevant license or franchise. Specifically, the Hennepin Island and Prairie Island licenses will be amortized through 2034, Monticello will be amortized through 2030, and franchise agreements with cities are amortized over 20 years.⁴⁷ The Department does not object to the Company's amortization policy for the assets in Account 302, however, given that Xcel recovers Account 302 capital costs through amortization, the Department requests that Xcel continue to include Account 302 – *Franchise and Consents* in its future depreciation filings.

III. DEPARTMENT CONCLUSIONS AND RECOMMENDATIONS

The Department recommends that the Commission:

- Approve Xcel's proposed depreciation parameters, with an effective date of January 1, 2020.
- Approve Xcel's proposal to account for its new Advanced Grid Intelligence and Security software under the 10-year life category of FERC Account 303 – *Computer Software* in the Company's Electric Utility segment.

⁴³ Data in Table 5 was retrieved from Department Attachment 2, unless otherwise noted.

⁴⁴ Dollar figures calculated using Petition Schedule E data. Total amortization includes the Electric, Gas, and Common Utility amortization expense documented in Petition Schedule E for Account 302.

⁴⁵ Dollar figures calculated using Petition Schedule D data. Total plant balance includes the Electric, Gas, and Common Utility plant balances documented in Petition Schedule D for Accounts 301 and 302.

⁴⁶ Department Attachment 2. Xcel explained that the Company does not amortize costs in Account 301.

⁴⁷ Department Attachment 2.

- Approve Xcel's proposal to (1) transfer \$634,844 of building assets out of Account 390 – *Structures & Improvements* and into non-utility accounts and (2) keep the associated \$172,791 of depreciation reserve in Account 390 – *Structures & Improvements* until the associated utility assets are retired.
- Approve Xcel's proposal to transfer the \$2,706,248 of property out of Account 390 – *Structures & Improvements* and into other utility accounts.
- Require Xcel to file its next remaining life depreciation petition by July 31, 2020.
- Reserve the right to require Xcel to return the \$1,948,659 net decrease in the electric utility depreciation expense to ratepayers through a capital true-up or other mechanism, for 2020.
- Require Xcel to provide in its future depreciation filings a supplemental plant-in-service activity schedule that excludes fully depreciated (i.e. fully reserved) plant amounts from the overall beginning and ending plant balances of Xcel's FERC accounts.
- Require Xcel continue to include Account 302 – *Franchise and Consents* in its future depreciation filings.

With regard to Account 390 – *Structures & Improvements*, the Department recommends that Xcel provide a proposal in its reply comments that explains how the Company:

- Determines which structures should be removed from the group to be depreciated separately, and which should remain in the group.
- Allocates the existing depreciation reserve among structures that should be removed from the larger group and those that remain in the group.
- Determines the remaining lives for structures that should be removed from the group and the remaining life for the group.

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Xcel Energy Information Request No. 3
Docket No.: E,G002/D-19-490
Response To: Department of Commerce
Requestor: Gemma Miltich
Date Received: September 3, 2019

Question:

Topic: Detailed depreciation expense calculations for 2018
Reference(s): Schedule E of initial filing, depreciation expense accruals

For the following accounts, please provide the detailed calculations to support the depreciation expense accrual dollar amounts documented in Schedule E of the initial filing (please use MS Excel format, if possible):

- Electric Utility: 303 – *Computer Software 5 Year*
- Electric Utility: 392 – *Light Trucks*
- Electric Utility: 397 – *General Communication Equipment*
- Electric Utility: 397 – *Communication Equipment - Two Way*
- Electric Utility: 397 – *Comm. & Telecomm. Equipment - EMS*
- Electric Utility: 398 – *Miscellaneous Equipment*

- Gas Utility: 303 – *Computer Software 5 Year*
- Gas Utility: 392 – *Light Trucks*
- Gas Utility: 397 – *Communication Equipment*
- Gas Utility: 397 – *Communication Equipment - Two Way*

- Common Utility: 303 – *Computer Software 3 Year*
- Common Utility: 303 – *Computer Software 5 Year*
- Common Utility: 390 – *Structures and Improvements - Leasehold Improvements*
- Common Utility: 391 – *Network Equipment*
- Common Utility: 397 – *Comm. & Telecomm. Equipment*

Response:

The Company reached out to the requestor, Gemma Miltich, to express concern over the complex nature of this request. The detailed calculations required to support the depreciation expense accrual dollar amounts for these accounts would take a

significant amount of time and resources to complete. The Company utilizes a subledger system that calculates monthly depreciation for these accounts at an asset level. Recreating those calculations in MS Excel for all the requested accounts by month would consist of detailed calculations for hundreds of thousands of records.

In that conversation, the Company learned that the requestor utilized a model to test the reasonability of the 2018 annual depreciation expense accruals filed within Schedule E. The model estimates annual depreciation expense accruals by account using an average full year plant $((\text{beginning plant} + \text{ending plant}) / 2)$ multiplied by the current approved depreciation rates. That estimate is compared to the annual depreciation expense accruals within Schedule E to determine if those accruals are reasonable. These accounts were flagged as being outside the reasonability threshold and thus the IR was filed. A simple explanation for this outcome is that for the accounts requested there are assets within the beginning and ending plant that are fully depreciated and no depreciation expense is recorded for several or all months during 2018. In essence, the model over-estimates the annual depreciation expense accrual as it assumes all gross plant has remaining net plant (gross plant less accumulated reserve) to be depreciated during the year.

The Company agreed to illustrate this relationship and prove the 2018 annual depreciation expense accrual for one of the accounts requested. The detailed calculations for Electric Utility: 303 – *Computer Software 5 Year* can be found in Attachment A to this response. In this situation, at the beginning of 2018 around 45% of the gross plant is fully depreciated and thus the currently approved depreciation rate is applied to only the other 55% of gross plant. That ratio fluctuates throughout the year due to additions, retirements, and assets becoming fully depreciated.

Preparer: Jon Livgard
Title: Senior Accounting Analyst
Department: Capital Asset Accounting
Telephone: 612-342-8923
Date: September 13, 2019

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Xcel Energy Information Request No. 4
Docket No.: E,G002/D-19-490
Response To: Department of Commerce
Requestor: Gemma Miltich
Date Received: September 3, 2019

Question:

Topic: Account 302 – *Franchise and Consents* & Account 301 – *Intangible Organization Costs*
Reference(s): Schedule D of initial filing

1. Is the addition of Accounts 302 – *Franchise and Consents* and 301 – *Intangible Organization Cost* new to Xcel's annual depreciation filing this year? If so, why did Xcel decide to add these accounts to the depreciation schedules now as opposed to earlier?
2. Please provide a detailed breakdown of the costs capitalized under Accounts 302 – *Franchise and Consents* and 301 – *Intangible Organization Cost*.
3. Does Xcel intend to amortize the capitalization amounts in Accounts 302 – *Franchise and Consents* and/or 301 – *Intangible Organization Cost* (accruals are documented for Account 302 – *Franchise and Consents* in Schedule E)? If so, over what period of time would the Company do so, and when would/did the Company begin the amortization for each account?
4. An amortization rate was not requested by Xcel in the current filing for Accounts 302 – *Franchise and Consents* or 301 – *Intangible Organization Cost*. Does Xcel intend to request an amortization rate for either of these accounts in a future depreciation filing?

Response:

1. Accounts 301 and 302 are new to the filing this year in order to have a full population of all transmission, distribution, and general (TD&G) functional class accounts. Adding these accounts makes certain reconciliations back to our subledger system easier and the Company felt it provided disclosure of all TD&G balances to the Commission.

2. There is one asset in Account 301 – Intangible Organization Cost. This asset relates to the corporate headquarters at 414 Nicollet Mall in Minneapolis built and in-serviced in 1965. Per the FERC plant instructions for Account 301, items within this account include “office expenses incident to organizing the utility”. Account 302 – Franchise and Consents mainly consists of the license costs for the Monticello and Prairie Island nuclear generating facilities and the Hennepin Island hydro plant along with various franchises and consents with specific cities for electric and gas distribution. The production-related intangible assets were included in this filing as they are classified to the functional class for Electric Intangible Plant. Refer to Attachment A for asset detail.
3. Capitalized amounts in Account 301 are not amortized. Account 302 is being amortized over the life of the license or the life of the franchise agreement. The Hennepin Island license is being amortized until February 2034, the Monticello license until September 2030, and the Prairie Island license until April 2034 (which is the composite date of the two units). Franchise agreements with cities are amortized over a 20 year period. Amortization began at the in-servicing date of each asset.
4. The amortization period was not requested by the Company in the current filing. It is the Company’s policy to amortize the license or franchise over the contractual life. Refer to Attachment B for the Company’s Uniform Policy on Franchises & Consents.

Preparer: Courtney Young
Title: Accounting Consultant
Department: Capital Asset Accounting
Telephone: 612-330-5897
Date: September 13, 2019

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Xcel Energy

Information Request No. 5

Docket No.: E,G002/D-19-490

Response To: Department of Commerce

Requestor: Gemma Miltich

Date Received: September 3, 2019

Question:

Topic: Account 390 – *Structures & Improvements*, Big Oaks Recreation Park

Reference(s): Page 10 of initial filing

1. Over what period of time does Xcel propose to keep the allocated depreciation reserve of \$172,791 in Account 390 – *Structures & Improvements*?
2. How and to what extent does Xcel's proposal to keep the \$172,791 of allocated depreciation reserve in Account 390 reconcile the depreciation expense actually paid by customers with the amount that should have been paid by customers for the Big Oaks Recreation Park?

Response:

1. The reserve associated with the Big Oaks Recreation Park will be allocated to the electric utility property remaining in the 390 account. The reserve will remain there, providing a rate base benefit to customers, until it is retired with the associated utility property.
2. Depreciation expense is paid in by the customer as a return of the investment made by the Company. As the invested balance that has not been recovered through depreciation expense decreases the customer receives a ratebase benefit and rates are decreased. As such, the \$172,791 of reserve paid by customers creates a ratebase offset, appropriately decreasing rates since the Company has effectively received that portion of its investment back. The Big Oaks Recreation Park sits on land required in the operation of a power plant, but the assets that were in account 390 do not appear to serve a utility purpose. Because of this the Company believes that customers should not have paid anything for these assets. The amount that customers have paid in will be kept in electric utility, allocated to the remaining 390 property, and thus the customers will not lose the ratebase benefit for what they paid in on these assets. Xcel Energy is proposing to keep the full amount of paid depreciation expense with the remaining 390 account assets.

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Xcel Energy

Information Request No. 6

Docket No.: E,G002/D-19-490

Response To: Department of Commerce

Requestor: Gemma Miltich

Date Received: September 3, 2019

Question:Topic: Account 390 – *Structures & Improvements*, transfers

Reference(s): Page 10 and Schedule D of initial filing

1. As explained on page 10 of the initial filing, Xcel identified \$2,706,248 worth of assets within Account 390 – *Structures & Improvements* to be transferred to other utility accounts. As it applies to these proposed transfers:
 - (a) Please disclose whether or not these transfers will be taken into account when Xcel calculates its actual annual depreciation expense for 2019.
 - (b) Please disclose the specific accounts to which Xcel proposes to transfer the \$2,706,248 of assets identified.
 - (c) Please provide the anticipated annual depreciation expense impact that would result if the identified assets were transferred as proposed.
2. Please provide a breakdown of the assets actually transferred in and out of Account 390 during 2018, as shown in Schedule D of the initial filing. The breakdown should include (a) the actual asset(s) transferred, (b) the dollar amount associated with the transferred asset(s), (c) the entity and/or account to which the assets were transferred, and (d) whether the assets transferred were included in Xcel's current rate base.

Response:

1.
 - a. Xcel Energy will transfer these assets in calendar year 2019, and the depreciation expense impact will reflect the date of the transfer. Xcel Energy is not proposing a complete retroactive calculation of depreciation back to the start of the year because it is unlikely to have a material impact given the amount of the dollars being transferred. The transfer will be reflected in a partial year impact.
 - b. Please see the below table for the break out of transfers:

Transfer To		Transfer Amount
Utility	FERC Account	
Electric	311-Steam Prod Str & Improve	34,014
Electric	321-Nuclear Prod Str & Improve	357,914
Electric	325-Nuc Prod Misc Pwr Plt Eq	146,945
Electric	331-Hydro Prod Str & Improve	57,124
Electric	352-Transmission Str & Improve	1,513,035
Electric	361-Distribution Str & Improve	6,012
Electric	394-General Tools & Shop Equip	8,920
Electric Total		2,123,964
Gas	305-Manuf Prod Struct & Impr	543,754
Gas Total		543,754
Common	394-General Tools & Shop Equip	38,530
Gas Total		38,530
Grand total		2,706,248

c. It is estimated that the transfers made in 2019 will result in approximately \$52,494 of annual depreciation expense increase.

2. See below for transfer details related to 2018 390 asset transfers.

To/From	Company	Asset ID	Utility Type	FERC Account	Included in Ratebase	Transfer Amount
To	NSPMN	1969795038	Electric	10390000	Yes	1,206,726
From	NSPMN	44270451	Electric	10321000	Yes	(1,206,726)
To	NSPMN	1116361120	Common	40390000	No	19,995
From	NSPMN	1585590754	Gas	20390000	No	(19,995)

Preparer: Nick Hanson
Title: Accounting Consultant
Department: Capital Asset Accounting
Telephone: 612-330-7850
Date: September 13, 2019

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Xcel Energy

Information Request No. 7

Docket No.: E,G002/D-19-490

Response To: Department of Commerce

Requestor: Gemma Miltich

Date Received: September 3, 2019

Question:

Topic: Account 390 – Structures & Improvements

Reference(s): Page 10 of initial filing

1. Based on its review of Account 390 – Structures & Improvements, Xcel discovered certain assets that the Company believes should be transferred to other accounts or retired. Other than the Commission-required review of Account 390, please describe, if any, Xcel's policies and procedures for periodically reviewing grouped assets held in regulatory accounts to ensure the assets' proper classification and status. A description of such policies or procedures might include information on the timing of reviews, the department responsible for reviews, the accounts subject to review, and the actual steps followed to review the relevant grouped assets.

Response:

Xcel Energy has a multi-departmental process for reviewing capital projects for both additions to plant and retirements of assets. The Capital Asset Accounting Department has provided policies and guidelines to Operations and Finance to assist with proper FERC classification and business segmentation of assets. When projects are in serviced and completed, Capital Asset Accounting also does a review of accounts and property units.

The Financial Reporting and Data Governance Department also has a master data process for project creation with a rigid set of rules to prevent invalid classification when projects are created.

The Company feels these front end validations and controls most effectively balance the costs and benefits of resources expended in validation versus data integrity and accuracy. In any large system there are going to be some problems that arise, and performing routine comprehensive checks and validations would be extremely

onerous. The Minnesota operating company currently has approximately 277,000 active individual assets, the oldest of which relate to the Hennepin Island Hydro facility and date back to the 1870s. The data required to calculate plant related reporting data is available in-system but much of the backup for these assets is solely on paper records stored in below ground vaults. While possible, the Company does not currently employ the staff required to perform routine validations in the interest of operating efficiently.

Preparer: Holly Hollingsworth
Title: Accounting Consultant
Department: Capital Asset Accounting
Telephone: 303-294-2363
Date: September 13, 2019

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Xcel Energy Information Request No. 8
Docket No.: E,G002/D-19-490
Response To: Department of Commerce
Requestor: Gemma Miltich
Date Received: September 3, 2019

Question:

Topic: Major future additions and retirements
Reference(s): Page 8 of initial filing

1. For the Advanced Grid Intelligence Security (AGIS) software that Xcel plans to place into service in 2020, please disclose the total dollar amount Xcel expects to capitalize.
2. If the AGIS software were to be approved for the 10-year life category for Account 303 – *Computer Software* under the Electric Utility, please provide an estimate for the subsequent impact on (a) annual depreciation expense and (b) the depreciation rate for Account 303 – *Computer Software*.
3. In general, what criteria or thresholds does Xcel use to determine whether a future capital addition or retirement is “major” enough to report as a part of the annual depreciation filing?

Response:

1. In 2020, the Company anticipates capitalizing approximately \$3.8 million for AGIS software in the Account 303/10 year life category.
2. The anticipated in-service date for this software is December 2020 so the estimated expense for 2020 is \$0.032 million (\$3.8 million / 10 years / 12 months). Annual depreciation expense in 2021 will be \$0.38 million. The depreciation rate for the 10 year 303 Software account will remain at 10% for 2020 and will be subsequently recalculated in future annual compliance filings.
3. As stated in the compliance filing (p. 8), the Company provides “a list of major future additions or retirements to the plant accounts the utility believes may have a

material impact on the current certification results.” (emphasis added) Therefore, the Company uses more qualitative reasoning than quantitative facts when determining what could impact the current rates, lives, net salvage, and other parameters within the filing. The Company reviews the various types of assets and determines if there are new categories of assets which are coming in-service in the future year to see if they would have characteristics which are fundamentally new or different from other assets already in-service and would cause the data to become skewed if they were added. For example, if we had a \$50 million dollar project going into FERC 355 Poles and Fixtures in the next year, even though it’s quantitatively a large project it would have the same life, curve, and net salvage rate as the other poles and fixtures already in that group so it would not change the results of the study. In the case of the AGIS software, while software itself is not a new category, the 10 year life is new compared to the already approved 5 year life category. If we did not request a specific category for this software, it would cause us to depreciate the software too quickly. The same logic would apply to how we determine “major” retirements.

Preparer: Courtney Young
Title: Accounting Consultant
Department: Capital Asset Accounting
Telephone: 612-330-5897
Date: September 13, 2019

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Xcel Energy Information Request No. 9
Docket No.: E,G002/D-19-490
Response To: Department of Commerce
Requestor: Gemma Miltich
Date Received: September 3, 2019

Question:

Topic: Account 356 – *Overhead Conductors and Devices*
Reference(s): Schedule D of initial filing, Electric Utility

1. Please explain why the retirement amount of \$567,196 is a positive (as opposed to negative) value under Account 356 – *Overhead Conductors and Devices* (Electric Utility).

Response:

In 2018, the Company identified that retirements to this account were being automatically retired based on the curve rather than specifically retired due to a system interface issue. The interface issue was corrected to stop the auto-retirement. The Company then “unretired” those assets that had been automatically retired and subsequently retired a corresponding number of assets on a specific first in-first out methodology. Since older assets have less plant basis than newer assets as well as some of these unretirements crossed over years, the net retirement transactions in 2018 were positive. If you looked at the account from a life-to-date perspective, the auto-retire and unretirement transactions would net to zero while the specifically retired transactions would then appropriately be a negative amount.

Preparer: Courtney Young
Title: Accounting Consultant
Department: Capital Asset Accounting
Telephone: 612-330-5897
Date: September 13, 2019

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Xcel Energy Information Request No. 10
Docket No.: E,G002/D-19-490
Response To: Department of Commerce
Requestor: Gemma Miltich
Date Received: September 3, 2019

Question:

Topic: Account 303 – *Computer Software 10 Year*
Reference(s): Schedule D of initial filing, Common Utility

1. Please disclose how long Xcel expects to continue using the \$43,267,319 portion of Account 303 – *Computer Software 10 Year* that was “unretired” in December 2018.
2. Please explain why Xcel initially retired the \$43,267,319 portion of Account 303 – *Computer Software 10 Year* in October 2017, rather than request an extension to the remaining life of software that was still in use.

Response:

1. The Company anticipates using the Customer Resource System (CRS) for approximately a minimum of four years, barring any unforeseen circumstances regarding new technology or security concerns, as it could take several years to source, test, and implement a replacement for a software project of this magnitude.
2. CRS was in-serviced in 2005. CRS software amortization period of 10 years, effective 1/1/2005, was approved in Docket No. E,G002-D-05-1099. Thus, the asset was fully reserved by 2016. Various code promotions and upgrades have been made to the CRS software after the initial 2005 in-servicing. These various code promotions and upgrades enhance the capabilities of the original CRS asset to meet the demands of the Company today. Without these upgrades the original asset would not have provided service past its original 10 year term. In order to continue to operate the CRS software, future capital spending and upgrades will be necessary to ensure function and security and to meet new and advancing security, customer, and regulatory expectations.

In 2017 the original asset was mistakenly retired. In 2018 when this was discovered, the Company unretired the asset. In addition, due to the installation of the various code promotions and upgrades, approximately 20% of the original

code was determined to be obsolete, so 20% of the asset was retired. As the original asset was fully reserved, requesting a life extension would not impact the depreciation rate or expense.

Preparer: Courtney Young
Title: Accounting Consultant
Department: Capital Asset Accounting
Telephone: 612-330-5897
Date: September 13, 2019

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Xcel Energy

Information Request No. 12

Docket No.: E,G002/D-19-490

Response To: Department of Commerce

Requestor: Gemma Miltich

Date Received: September 3, 2019

Question:

Topic: 2018 negative capital additions – various accounts

Reference(s): Schedule D of initial filing, Electric and Gas Utility

1. Please explain why the addition amount of (\$167,047) is a negative (as opposed to positive) value under Account 354 – *Towers & Fixtures* (Electric Utility).
2. Please explain why the addition amount of (\$8,946,501) is a negative (as opposed to positive) value under Account 397 – *Comm. & Telecomm. Equipment – EMS* (Electric Utility).
3. Please explain why the addition amount of (\$196,251) is a negative (as opposed to positive) value under Account 380 – *Services – Metallic* (Gas Utility).
4. Please explain why the addition amount of (\$45,284) is a negative (as opposed to positive) value under Account 397 – *Communication Equipment* (Gas Utility).

Response:

1. The negative addition in Account 354 – *Towers & Fixtures* is due to a reclassification issue. When the spend for this particular work order was moved from Account 107 *CWIP* to Account 106 *Completed construction not classified (CCNC)* prior to 2018, it was placed into Account 354. However, when the plant was classified into Account 101 *Plant in Service* during 2018, the appropriate classification was actually to Account 355 *Poles & Fixtures*. Since the addition crossed years, it would show as a positive addition to Account 354 prior to 2018 but when it was reclassified, it presented itself as a negative addition when it was reversed out. If you looked at the *Towers & Fixtures* account from a life-to-date perspective these two transactions would net to zero.
2. Similar to part 1 above, the ‘negative addition’ represents cross-year movement between plant subaccounts 397 *Comm. & Telecomm. Equipment – EMS* and 397 *Communication Equipment – Two Way* when unitizing the asset from Account 106 *CCNC* to Account 101 *Plant in Service*.

3. Similar to part 1 above, the 'negative addition' represents cross-year movement from plant account 380 *Services - Metallic* to (mainly) accounts 380 *Services – Plastic* and 376 *Mains* (both plastic and metallic) when unitizing the asset from Account 106 *CCNC* to Account 101 *Plant in Service*.
 4. Similar to part 1 above, the 'negative addition' represents cross-year movement between plant subaccounts 397 *Communication Equipment* and 397 *Communication Equipment – Two Way* when unitizing the asset from Account 106 *CCNC* to Account 101 *Plant in Service*.
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Preparer: Courtney Young
Title: Accounting Consultant
Department: Capital Asset Accounting
Telephone: 612-330-5897
Date: September 13, 2019

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Xcel Energy Information Request No. 13
Docket No.: E,G002/D-19-490
Response To: Department of Commerce
Requestor: Gemma Miltich
Date Received: September 3, 2019

Question:

Topic: 2018 transfers reducing plant balances – various accounts
Reference(s): Schedule D of initial filing, Electric Utility

1. For the accounts bulleted below, please disclose whether the 2018 transfers that reduced plant balances (i.e. the negative transfer values) included assets that were built in to Xcel's current rate base. If the assets transferred were included in Xcel's current rate base, please disclose (a) the actual asset(s) transferred and (b) to which entity and/or account(s) and the assets were transferred.
 - 350 – *Land – Fee*
 - 352 – *Structures & Improvements*
 - 353 – *Station & Equipment*
 - 355 – *Poles & Fixtures*

Response:

1. Below are descriptions of the transfers that occurred for the accounts in question. Please refer to Attachment A for a full listing of the assets transferred. For the assets transferred out of the four accounts in question, only \$57 thousand had an in-service date after December 31, 2016, and those assets would have been added into actuals and used in the capital true-up comparisons for the plan years.
 - a. **350 – Land – Fee**: Out of the \$612 thousand transferred out of 350 – *Land – Fee*, about \$484 thousand was related to land right and went to 350 – *Land – Other*. These transfers were related to the “Buy the Farm” program so the Company transferred the cost of the land to the cost of the right of way. The remaining \$128 thousand went to 360 *Land – Fee* (Distribution). This transfer was related to the Sauk River substation changing functions from transmission to distribution in 2018.
 - b. **352 – Structures & Improvements**: \$246 thousand in assets related to the Sauk River substation reclassification as mentioned in Part 1 above were transferred from 352 – *Structures & Improvements* (Transmission) to

361 - *Structures & Improvements* (Distribution). \$98 thousand in assets were transferred from 341 - *Structures and Improvements* (Other Production) to 352 - *Structures & Improvements* (Transmission) for the West Faribault substation. This was moved out of Production as the plant is no longer operational but certain assets are being used for the substation.

- c. **353 – Station & Equipment:** \$99 thousand in assets related to the Sauk River substation reclassification as mentioned in Part 1 above were transferred from 353 – *Station Equipment* (Transmission) to 362 - *Station Equipment* (Distribution). \$11 thousand in assets were transferred from 344 – *Generators* (Other Production) to 353 – *Station Equipment* (Transmission) for the West Faribault substation. This was moved out of Production as the plant is no longer operational but certain assets are being used for the substation. Another \$61 thousand was transferred from 353 – *Station Equipment* (Transmission) to 362 - *Station Equipment* (Distribution) mainly to 362 - *Station Equipment* (Distribution) for the Maynard substation which changed functions from Distribution to Transmission.
- d. **355 – Poles & Fixtures:** In June 2018, the Company transferred 5 wood poles from 355 – *Poles & Fixtures* (Transmission) to 364 – *Poles, Towers, and Fixtures* (Distribution) for \$7,757.91, partially offset by a small \$1.9 thousand transfer from 353 – *Station Equipment* to 355 – *Poles & Fixtures* related to the Maynard substation transaction.

Preparer: Courtney Young
Title: Accounting Consultant
Department: Capital Asset Accounting
Telephone: 612-330-5897
Date: September 13, 2019