COMMERCE DEPARTMENT

October 23, 2019

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

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

Dear Mr. Wolf:

Attached are the Response 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 Department continues to recommend that the Minnesota Public Utilities Commission (Commission) **approve Xcel Energy's Petition**. The Department is available to answer any questions that the Commission may have in this matter.

Sincerely,

/s/ GEMMA MILTICH
Financial Analyst, CPA

GM/ja
Attachment

COMMERCE DEPARTMENT

Before the Minnesota Public Utilities Commission

Response 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.

The Department filed its initial Comments in the instant docket on September 26, 2019, recommending that the Commission approve Xcel's Petition. The Department also requested that Xcel (1) include certain information in its future depreciation filings and (2) provide a proposal in its Reply Comments explaining how the Company would approach separating and independently depreciating a portion of the property in the Federal Energy Regulatory Commission (FERC) Account 390 – *Structures & Improvements* (Account 390). On October 10, 2019, Xcel submitted Reply Comments in which the Company agreed to provide the Department-requested information in its future depreciation filings and outlined a proposal for changing its depreciation methodology for Account 390. Xcel continues to request Commission approval 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]

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

  - 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 FERC Account 303 – *Computer Software*, once the AGIS software is placed into service in 2020.

In addition, based on Xcel's review of its Account 390, the Company proposes to:

- 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 Department reviewed Xcel's Reply Comments in the current matter to determine (1) whether the Company would agree to provide in future depreciation filings the additional information requested by the Department and (2) the reasonableness of Xcel's proposals for changing the Company's depreciation methodology for certain assets in Account 390.

A. PROVISION OF CERTAIN INFORMATION IN FUTURE DEPRECIATION FILINGS

In its initial Comments under the current docket, the Department requested that Xcel provide in its future deprecation filings (1) 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 for the Company's FERC accounts and (2) continued reporting of FERC Account 302 – *Franchise and Consents*.[2] Xcel agreed in its Reply Comments to include this Department-requested information in the Company's future depreciation filings.[3] The Department appreciates Xcel's agreement and continues to recommend that the Commission incorporate these items as requirements in its order for this matter.

[2] Department's September 26, 2019 Comments in Docket No. E,G002/D-19-490, page 17.
[3] Xcel's October 10, 2019 Reply Comments in Docket No. E,G002/D-19-490, page 1.

B. *XCEL'S PROPOSALS FOR CHANGING DEPRECIATION METHODOLOGY FOR ACCOUNT 390 – STRUCTURES AND IMPROVEMENTS*

With regard to Xcel's depreciation practices for Account 390, the Department requested in its September 26, 2019 Comments that the Company provide in its Reply Comments a proposal explaining how Xcel:

- 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, and
- Determines the remaining lives for structures that should be removed from the group and the remaining life for the group.[4]

In its October 10, 2019 Reply Comments, Xcel provided analyses and proposals around how the Company could separate and independently depreciate certain buildings included in Account 390. The Company outlined the following three basic steps to approach this depreciation change:

(1) Xcel explained that it considered two different dollar thresholds in determining which buildings should be separated from or remain in the Account 390 grouped property. After reviewing buildings with gross plant balances over \$4 million versus buildings with gross plant balances over \$10 million, the Company determined "\$10 million to be a reasonable threshold, because the marginal benefit of moving to a \$4 million threshold would be minimal."[5]

    Using a \$10 million gross plant value threshold, the buildings eligible for individual depreciation would represent more than half of the historical capitalized cost and depreciation reserve in Account 390 for both Xcel's Electric and Common Segments.[6] Separating such major assets would reduce the risk that early or late retirements of these significant facilities would inordinately impact the depreciation of the Account 390 grouped property.

(2) Xcel described how it would use the functionality of the Company's subledger accounting software, PowerPlan, to allocate the existing depreciation reserve among separated and grouped Account 390 assets. According to Xcel, PowerPlan allows the Company to assign a location to each asset in Account 390 and track depreciation reserve by asset location, thereby making it possible allocate depreciation reserve among assets by their assigned location.[7] Xcel's explanation of the PowerPlan software functionality is consistent with Minnesota

[4] Department's September 26, 2019 Comments in Docket No. E,G002/D-19-490, page 17.
[5] Xcel's October 10, 2019 Reply Comments in Docket No. E,G002/D-19-490, page 3.
[6] Xcel's October 10, 2019 Reply Comments in Docket No. E,G002/D-19-490, Attachment A.
[7] Xcel's October 10, 2019 Reply Comments in Docket No. E,G002/D-19-490, page 3.

Power's description of PowerPlan's capabilities and its application to assets in FERC Account 390.[8] The Department does not oppose this depreciation reserve allocation methodology, based on the information available at this time.

(3) Xcel outlined how it would determine the remaining lives of both the separated buildings and remaining grouped assets in Account 390. For the six buildings with gross plant values exceeding $10 million,[9] the Company explained that it would conduct an analysis of factors relevant to the assets' remaining lives, including, but not necessarily limited to, the following:

- Current age and physical condition of the facility.
- Short and long-term strategic operational plans.
- Forecasted capital expenditures.
- Potential plans to sell the existing facility or buy/lease a new facility.[10]

For the Account 390 assets that would continue to be subject to group depreciation, Xcel explained that in determining the group's remaining life, it would consider similar criteria to that analyzed for the separated buildings. In addition, the Company stated that it would perform a review to "determine if a change to the average service life for the group is warranted."[11] The Department considers Xcel's description of how the Company will evaluate Account 390 remaining lives to be reasonable and recognizes that the Company's proposed review and analysis process could take some time.

While Xcel's proposed steps to transition to new depreciation practices for Account 390 appear generally reasonable, the Department believes it is prudent to refrain from making recommendations for approval or disapproval until the relevant proposals are complete and finalized. At this time, the Department recommends that the Commission require Xcel to include in its 2020 Transmission, Distribution, and General Accounts depreciation filing:

- A finalized proposal detailing which structures should be removed from the group to be depreciated separately, and which should remain in the group.
- A finalized proposal for the allocations of the existing depreciation among the structures removed from and remaining in the grouped property in Account 390.
- Proposed remaining lives for both the structures that should be removed from the group and the remaining life for the group.

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[8] Minnesota Power's initial filing in Docket No. E015/D-19-534, pages 2 and 3.
[9] Xcel's October 10, 2019 Reply Comments in Docket No. E,G002/D-19-490, Attachment A.
[10] *Id*., page 3 and 4.
[11] *Id*., page 4.

III. CONCLUSION 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.

- 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*, require Xcel to include in its 2020 Transmission, Distribution, and General Accounts Depreciation filing:

  - A finalized proposal detailing which structures should be removed from the group to be depreciated separately, and which should remain in the group.
  - A finalized proposal for the allocations of the existing depreciation among the structures removed from and remaining in the grouped property in Account 390.
  - Proposed remaining lives for both the structures that should be removed from the group and the remaining life for the group.

The Department emphasizes that the Commission’s determination in depreciation proceedings are for accounting purposes only and are not a determination for purposes of rates.

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