

Minnesota Public Utilities Commission
Staff Briefing Papers

Meeting Date: December 10, 2015 **Agenda Item # 7****

Company: Northern States Power Company d/b/a Xcel Energy (Xcel or the Company)

Docket No. E-002/GR-15-826
In the Matter of the Application of Northern States Power Company for
Authority to Increase Rates for Electric Service in the State of Minnesota

Issues: **Should this filing be accepted, the proposed rates suspended, this matter referred to the Office of Administrative Hearings, and interim rates set as requested by the Company?**

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Relevant Documents

Xcel - Initial Filing & Interim Rate Petition¹ Nov. 2, 2015
Xcel – Supplemental Information - Revised Nov. 10, 2015
Department - Comments Nov. 12, 2015
OAG-RUD - Comments Nov. 12, 2015
Xcel - Reply Comments Nov. 17, 2015
OAG-RUD – Supplemental Comments Nov. 20, 2015

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¹ Volume 1 – Notice of Change in Rates & Interim Rate Petition, Volumes 2a through 2f – Testimony and Schedules, Volume 2e – Proposed Tariffs, and Volume 3 – Required Information. (Volume 4, Test Year Workpapers, Volume 5, Budget Summary, and Volume 6, Budget Documentation, are not included in this list of relevant documents for this meeting.)

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Statement of the Issues

- Should this filing be accepted as complete? Should the Commission request the Company to file supplemental information?
- Should the proposed rates be suspended? If so, for what period?
- Should this matter be referred to the Office of Administrative Hearings for a contested case proceeding? If so, are there issues in addition to the standard rate case issues the Commission would like parties to address?
- What level of interim revenue increase should be set and for what time period? Should the Commission find exigent circumstances as requested by the OAG? How should the increase be collected from customers?

Introduction

On November 2, 2015, Northern States Power Company doing business as Xcel Energy (Xcel or the Company) filed a general rate case, including a proposal for a multiyear rate plan, with the Minnesota Public Utilities Commission (Commission), in this docket.² The Company is asking for an increase in retail electric rates in Minnesota of \$194.6 million, or 6.4 percent, effective January 1, 2016, based on a forecasted 2016 test year, and a proposed rate of return on equity of 10.0 percent. In its proposal for a multiyear rate plan (“MYRP”), Xcel is asking for a calendar year 2017 step increase of \$52.1 million, or 6.4 percent, effective January 1, 2017, and a calendar-year 2018 step increase of \$50.4 million, or 1.7 percent, effective January 1, 2018. In total, Xcel’s request is for an annual increase of \$297.1 million, or 9.8 percent based on 2016 present revenues, effective January 1, 2018.

Alternatively, Xcel proposed a five-year multi-year rate plan for the Commission to consider. Xcel’s five-year MYRP offer is based on Xcel’s 2016 test-year cost-of-service in the first year plus four annual, static, formulaic, incremental rate increases.³ Xcel’s five-year offer includes a proposal for an earnings test and sharing mechanism, tied to an indexed return on equity. This earnings test and sharing mechanism would replace the individual true-up mechanisms (for capital revenue requirements, property taxes and non-decoupled class sales) recommended in Xcel’s three-year MYRP request.⁴

² On October 2, 2015, Xcel submitted sales forecast data, which it had previously agreed to provide 30 days in advance of filing its rate case.

³ Xcel, Chandarana, prefiled direct testimony, p. 69

⁴ Xcel, Chandarana, prefiled direct testimony, p. 76

Xcel	Three-Year MYRP (Proposed)		Five-Year MYRP Offer (Alternative)	
	Increase (millions)	Increase (percent)	Increase (millions)	Increase (percent)
Calendar-year 2016 - Test year	\$194.6	6.4%	\$163.7	5.4%
Calendar-year 2017 – Step year 1	\$52.1	1.7%	\$ 54.6	1.8%
Calendar-year 2018 – Step year 2	\$50.4	1.7%	\$ 54.6	1.8%
3-yr Cumulative Total/annualized	\$297.1	9.8%	\$ 272.9	9.0%
Calendar-year 2019 – Step year 3	n/a	n/a	\$ 54.6	1.8%
Calendar-year 2020 – Step year 4	n/a	n/a	\$ 54.6	1.8%
5-yr Cumulative Total/annualized	n/a	n/a	\$ 382.1	12.6%

Xcel also asked for an interim rate increase for 2016 of approximately \$163.7 million, or 5.5 percent, effective January 1, 2016,⁵ and an incremental interim rate adjustment for 2017 of approximately \$44.9 million, or about 1.5 percent, for a total of \$208.6 million, or approximately 7.0%, effective January 1, 2017.

The basic issues at this stage of a rate case are whether to accept the filing, suspend the proposed final rates, refer this matter to the Office of Administrative Hearings (OAH) for a contested case proceeding, and set interim rates subject to refund.

In a related matter, on November 2, 2015, Xcel submitted its petition for approval to restate its base energy charges to coincide with the implementation of interim rates, in Docket No. E-002/MR-15-827, pursuant to Minn. Rules, Part 7825.2700, subpart 2. On November 19, 2015, the Department submitted comments, and on November 25, 2015, Xcel submitted its reply. This docket is on the Commission's agenda for this meeting.

Background

On November 4, 2015, the Minnesota Public Utilities Commission (Commission) issued its notice requesting comments on whether Xcel's filing complies with the filing requirements in Minn. Stat. § 216B.16, Minn. Rules, Parts 7825.3100 to 7825.4400 and Commission Orders. The Commission also asked for comments on whether this rate application should be referred to the Office of Administrative Hearings (OAH) for a contested case proceeding.

On November 12, 2015, the Minnesota Department of Commerce, Division of Energy Resources (the Department or DOC) recommended the Commission accept Xcel's application as substantially complete as of November 10, 2015. The Department recommended the November 10 acceptance date because that is the day that Xcel submitted financial summaries (as required by Minnesota rules, part 7825.3900 – 7825.4100) based on unadjusted actual 2014 and unadjusted projected 2015 data rather than financial summaries based on adjusted data. The

⁵ If the Commission suspends the proposed rates.

Department recommended the Commission refer this matter to the Office of Administrative Hearings for a contested case proceeding. In its comments, the Department emphasized that its initial review of Xcel's filing relates only to whether Xcel's application is substantially complete, in proper form, and whether there are material facts at issue that warrant a contested case proceeding to resolve. The Department's initial review did not look at the substance or merit of Xcel's request.

On November 12, 2015, the Minnesota Office of the Attorney General - Residential Utilities and Antitrust Division (OAG) recommended the Commission make a finding of exigent circumstances and reject Xcel's request for an interim rate step increase in 2017, and consider whether exigent circumstances exist to reduce Xcel's requested interim rate increase of \$163.7 million for 2016.

On November 17, 2015, Xcel submitted its reply. Xcel accepted the Department's recommendation for a six month extension of the procedural deadline but did not address the Department's recommendation that Xcel's case should be accepted as substantially complete as of November 10, 2015. Xcel objected to all of the OAG's recommendations regarding interim rates.

On November 20, 2015, the OAG submitted additional comments on Xcel's request for interim rates in response to Xcel's reply comments.

Prior Merger and Electric Rate Cases Dockets

Northern States Power/New Centuries Merger

On July 28, 1999, the Company asked for approval under Minn. Stat. §216B.50 to merge with New Centuries Energy, Inc. (based in Denver, Colorado) in Docket No. E,G-002/PA-99-1031. On June 12, 2000, the Commission issued its *Order Approving Merger, As Conditioned* (Merger Order). Among the conditions stipulated to by the Company and parties, and approved by the Commission, was a requirement to reduce electric rates by \$10 million, institute a five year electric rate freeze, and institute a four year gas rate freeze.⁶

Electric Rate Cases Subsequent to the Merger

Xcel has filed five electric rate cases since the post-merger moratorium on electric rate case ended.

2005 Xcel electric rate case

On November 2, 2005, Xcel filed an electric rate case in Docket No. E-002/GR-05-1428, seeking an annual electric rate increase of \$168,047,000, or 8.05 percent. In its September 1, 2006 *Findings of Fact, Conclusions of Law, and Order; Order Opening Investigation*, the Commission authorized an increase of \$131,455,000, or approximately 6.29 percent, for the test year ending December 31, 2006. Beginning January 1, 2007, the authorized increase was adjusted (reduced)

⁶ Various cost increases collected through riders were excluded from the freeze, and certain other exceptions were allowed.

to \$114,941,000 effective January 1, 2007, to reflect the addition of Flint Hills as a full-requirements retail customer.

2008 Xcel electric rate case

On November 3, 2008, Xcel filed an electric rate case in Docket No. E-002/GR-08-1065, seeking an annual electric rate increase of \$156,065,000, or 6.05 percent. In its October 23, 2009 *Findings of Fact, Conclusions of Law, and Order*, the Commission authorized an increase of \$91,375,000, or approximately 3.54 percent.

2010 Xcel electric rate case

On November 3, 2010, Xcel filed an electric rate case in Docket No. E-002/GR-10-971, asking for a general increase in rates of \$150.1 million or 5.62% effective January 2, 2011, based on a 2011 forecasted test year. The Company also requested an additional increase of \$48.3 million, or 1.81 percent, effective January 1, 2012 (2012 step-in adjustment) resulting in a total rate increase request of \$198.5 million, or 7.43 percent. On May 14, 2012, the Commission issued its *Findings of Fact, Conclusions of Law, and Order*, and subsequently issued its August 31, 2012 *Order Accepting Filings, Making Minor Revision to Revenue Deficiency, and Setting Final Rates* which authorized an increase in Minnesota jurisdictional total retail related revenues of \$58,036,000 per year, based on a rate of return on common equity capital of 10.37% for the test-year ending December 31, 2011. The Commission also authorized an additional \$14,680,000 for the 2012 step-increase for a total increase of \$72,716,000, or approximately 2.72 percent.

2012 Xcel electric rate case

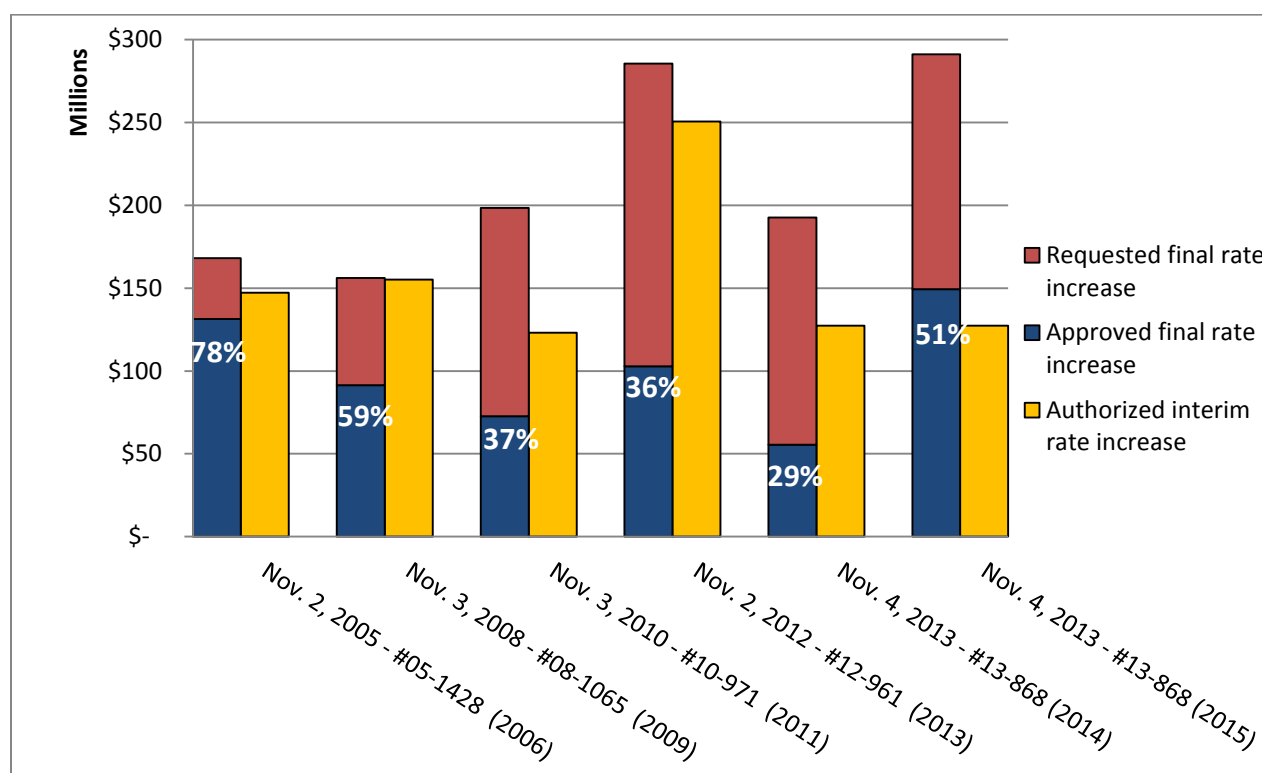
On November 2, 2012, Xcel filed an electric rate case in Docket No. E-002/GR-12-961, seeking an annual electric rate increase of \$285,476,000, or 10.70 percent. In its September 3, 2013 *Findings of Fact, Conclusions of Law, and Order*, the Commission authorized an increase of \$102,797,000, or approximately 3.82 percent.

2013 Xcel electric rate case

On November 4, 2013, Xcel filed an electric rate case in Docket No. E-002/GR-13-868, requesting approval of a multiyear rate plan. Xcel requested an annual electric rate increases of \$192,708,000, or 6.9%, for 2014, and an additional \$98,535,000, or 3.5%, in 2015, for a total of \$291,243,000, or approximately 10.4 percent. In its August 31, 2015 *Order Reopening, Clarifying, And Supplementing May 8, 2015 Order*, the Commission authorized an increase of \$55,511,000 for the 2014 test year and \$93,908,000 for the 2015 step year, for a total of \$149,419,000, or approximately 5.28 percent.

The following table and chart summarize the results of Xcel’s five electric rate cases since its merger with New Centuries Energy and the formation of Xcel Energy.

Rate Case Docket No.	Test-year	Increase requested	Final increase granted	Final increase granted as a percentage of the total amount requested
E-002/GR-05-1428	2006	\$168,047,000	\$131,455,000	78.2%
E-002/GR-08-1065	2009	\$156,065,000	\$91,375,000	58.5%
E-002/GR-10-971	2011	\$198,500,000	\$72,716,000	36.6%
E-002/GR-12-961	2013	\$285,476,000	\$102,797,000	36.0%
E-002/GR-13-868	2014	192,700,000	\$55,511,000	28.8%
E-002/GR-13-868	2015 (step year)	\$291,243,000	\$149,419,000	51.3%
Electric only average				48.3%



Xcel’s request in this case for an interim rate increase of \$163.7 million for 2016 is equal to 84.1 percent of Xcel’s request for a 2016 test-year increase in rates of \$194.6 million.

Xcel’s request for a cumulative interim rate increase of \$208.6 million for 2017 (after the \$44.9 million 2017 step year interim increase is added to the \$163.7 million test year interim increase) is equal to 70.2 percent of Xcel’s total request of \$297.1 million over the three-year MYRP.

Multi-Year Rate Plans (MYRPs) - Relevant Orders & Statutes

In 2011, the Legislature enacted Minn. Stat. § 216B.16, subd. 19, authorizing the Commission to approve multiyear rate plans for rate regulated utilities, and to establish the terms, conditions, and procedures for such plans.

Commission Established Standards for MYRPs

In its June 17, 2013 *Order Establishing Terms, Conditions, And Procedures For Multiyear Rate Plans*,⁷ the Commission established standards for multi-year rate plans. The following is a partial list of standards established in the June 17, 2013 Order.

- A utility may propose a multiyear rate plan to improve the regulatory process for the recovery of –
 - Costs related to specific, clearly identified capital projects, and
 - Appropriate non-capital costs.
- A multiyear rate plan shall not last longer than three years. A multiyear rate plan starts with the effective date of newly authorized rates in a general rate case proceeding, coinciding with the proposed test year in the rate case, unless it is demonstrated to be reasonable to do otherwise.
- It is presumed that interim rates will be calculated based upon the rate case test year unless it is demonstrated to be reasonable to do otherwise.
- A utility must not file a rate case that results in implementing a general rate increase during the term of its multiyear rate plan. A utility that provides both gas and electric service and that files a multiyear rate plan for one type of service is not prohibited from filing a rate case for the other type of service during the term of the multiyear plan.⁸
- The Commission retains discretion to examine the utility's rates and, if they are found to be imprudent, to adjust them as necessary. Imprudent rate increases implemented during the multiyear rate plan are subject to refund.
- A utility seeking authorization for a multiyear rate plan shall not propose formula rates that are contingent upon future developments. Rather, the utility shall identify a specific price for each regulated utility service it plans to charge for each year that the plan remains in effect.

⁷ In the Matter of the Minnesota Office of the Attorney General – Antitrust and Utilities Division's Petition for a Commission Investigation Regarding Criteria and Standards for Multiyear Rate Plans under Minn. Stat. § 216B.16, subd. 19, Docket No. E,G-999/M-12-587

⁸ As amended in the Commission's August 29, 2013 *Order After Reconsideration Clarifying Terms, Conditions, And Procedures For Multiyear Rate Plans*, In the Matter of the Minnesota Office of the Attorney General – Antitrust and Utilities Division's Petition for a Commission Investigation Regarding Criteria and Standards for Multiyear Rate Plans under Minn. Stat. § 216B.16, subd. 19, Docket No. E,G-999/M-12-587

- Where a utility is recovering continuing, predictable costs through riders, a utility seeking approval of its multiyear rate plan shall propose to recover those costs via base rates at the beginning of the rate case.
- Regarding other riders and cost recovery mechanism, the utility shall design its multiyear rate plan to consolidate as many of them as practical, in the most reasonable manner available.
- Commission will address new petitions for riders and deferred accounting on a case-by-case basis as they arise, and will consider the status and objectives of the petition.
- A utility shall clearly show that its multiyear rate plan will not cause the utility to recover costs already being recovered through existing rate riders. No utility shall recover costs through a rider that it is also recovering through a multiyear rate plan for the same period.
- Regarding any proposal to establish new rates on an interim basis, an application for a multiyear rate plan must include or be accompanied by an explanation of how the utility proposes to collect and possibly refund interim rates in conjunction with the collection of and transition to the rates arising from a multiyear rate plan.
- Regarding an applicant's existing rate riders, an application for a multiyear rate plan must include or be accompanied by the following:
 - A proposal to restructure its riders as follows:
 - a proposal to recover through base rates the cost of existing riders that are likely to continue and are sufficiently predictable to support recovery through base rates,
 - a proposal to consolidate as many other riders and cost recovery mechanisms as is practical, and
 - a demonstration that the utility's proposals to restructure its rate riders are the most reasonable alternatives available to the utility.
 - Clear evidence that double recovery will not occur as a result of the way the utility proposes to handle its multiyear rate plan and existing riders, including evidence that the periods during which the utility is recovering a cost via a rider does not overlap with the period during which it is recovering the cost via base rates or the multiyear rate plan mechanism.

2015 Amendments to the MYRP Statute

In 2015, the legislature amended the multiyear rate plan statute, Minn. Stat. § 216B.16, subd. 19, to allow the Commission to authorize up to a maximum of five-year multiyear rate plans rather than the previous three-year limit. The legislature also enacted the following new provisions that

counter some of the standards and conditions and safeguards established in the Commission's June 17, 2013 Order.

Minn. Stat. § 216B.16, subd. 19(a) ... A utility proposing a multiyear rate plan shall provide a general description of the utility's major planned investments over the plan period. The commission may also require the utility to provide a set of reasonable performance measures and incentives that are quantifiable, verifiable, and consistent with state energy policies. The commission may allow the utility to adjust recovery of its cost of capital or other costs in a reasonable manner within the plan period. The utility may propose:

- (1) recovery of the utility's forecasted rate base, based on a formula, a budget forecast, or a fixed escalation rate, individually or in combination. The forecasted rate base must include the utility's planned capital investments and investment-related costs, including income tax impacts, depreciation, and property taxes, as well as forecasted capacity-related costs from purchased power agreements that are not recovered through subdivision 7;
 - (2) recovery of operations and maintenance expenses, based on an electricity-related price index or other formula;
 - (3) tariffs that expand the products and services available to customers, including, but not limited to, an affordability rate for low-income residential customers; and
 - (4) adjustments to the rates approved under the multiyear plan for rate changes that the commission determines to be just and reasonable, including, but not limited to, changes in the utility's cost of operating its nuclear facilities, or other significant investments not addressed in the plan.
- (b) A utility that has filed a petition with the commission to approve a multiyear rate plan may request to be allowed to implement interim rates for the first and second years of the multiyear plan. If the commission approves the request, interim rates shall be implemented in the same manner as allowed under subdivision 3.

- (h) The commission may initiate a proceeding to determine a set of performance measures that can be used to assess a utility operating under a multiyear rate plan.

Xcel's Application

Xcel is asking for an increase in retail electric rates in Minnesota of \$194.6 million, or 6.4 percent, effective January 1, 2016, based on a forecasted 2016 test year, and a proposed rate of return on equity of 10.0 percent. In its proposal for a multiyear rate plan (“MYRP”), Xcel is asking for a calendar year 2017 step increase of \$52.1 million, or 6.4 percent, effective January 1, 2017, and a calendar-year 2018 step increase of \$50.4 million, or 1.7 percent, effective January 1, 2018. In total, Xcel’s request is for an annual increase of \$297.1 million, or 9.8 percent (based on 2016 present revenues), effective January 1, 2018.

Comparison of Authorized and Proposed Revenue Requirement

The following schedule compares the revenue requirement approved in Xcel’s 2013 multi-year rate case, Docket No. E-002/GR-13-868, and the proposed revenue requirements in this docket.

Financial Summary (\$000's)	Authorized 2015 Rate Case - Docket No. E-002/GR- 13-868 (2014 Test Year & 2015 Step Year)	Proposed 2016 Test Year Rate Case - Docket No. E- 002/GR-15- 826	Proposed Final (2016 Test Year <u>Plus</u> 2017 Step Year) Rate Case - Docket No. E-002/GR- 15-826	Proposed Final (2016 Test Year <u>Plus</u> 2017 & 2018 Step Years) Rate Case - Docket No. E- 002/GR-15- 826
Average Rate Base	\$6,988,289	\$7,836,115	\$7,739,688	\$7,681,159
Rate of Return	7.34% and 7.37%	7.49%	7.51%	7.51%
Return on Equity	9.72%	10.00%	10.00%	10.00%
Required Operating Income	\$574,902	\$586,925	\$581,251	\$576,855
Operating Revenue	\$3,639,688	\$3,621,078	\$3,629,772	\$3,638,101
Expenses	\$3,094,141	\$3,181,537	\$3,233,825	\$3,269,602
AFUDC	\$29,355	\$33,283	\$40,683	\$34,147
Operating Income	\$574,902	\$472,824	\$436,630	\$402,646
Income Deficiency	\$0	\$114,101	\$144,621	\$174,209
Conversion Factor	1.70561	1.70561	1.70561	1.70561
Revenue Deficiency, Net of Rate Mitigation	\$0	\$194,612	\$246,666	\$297,133
Rate Mitigation	\$0	\$45,717	\$0	\$0
Revenue Deficiency without Rate Mitigation	\$0	\$240,329	\$246,666	\$297,133

2016-2018 MYRP Proposal

2016 Test Year

The proposed 2016 test year increase of approximately \$159.6 million can be attributed to the following changes since rates were increased in 2014 and 2015 (the 2013 MYRP rate case):

2016 Capital Related items account for 82%⁹ of the requested increase:

Capital-Related Cost Category	Revenue Requirement Increase (Decrease) \$ in Millions
Nuclear	\$57.5
Energy Supply	(\$3.4)
Wind	\$12.7
Transmission, net of TCR	\$18.8
Distribution	\$13.0
General & Intangible	\$25.9
Theoretical Reserve	\$26.1
Other Rate Base	(\$2.6)
NOL and Fed Tax Items	(\$6.2)
Return on Equity	\$20.0
Capital Structure & Debt	(\$2.1)
Total	\$159.6

⁹ \$159.6/\$194.6 = ~82%

2016 Operating Expense items account for 23% of the requested increase:

Operating Expenses Cost Category	Revenue Requirement Increase (Decrease) \$ in Millions
Nuclear	(\$13.4)
Energy Supply	\$4.4
Transmission	\$2.5
Distribution (MN only)	\$4.7
Customer Accounts, Info & Sales	\$0.4
A&G and Other O&M	\$19.3
Property Taxes	\$30.2
Payroll Taxes	(\$1.9)
Amortizations	(\$0.7)
Total	\$45.5

2016 Margins account for a 5% *reduction* of the requested increase:

Margins Cost Category	Revenue Requirement Increase (Decrease) \$ in Millions
Retail Revenue & COGS	(\$14.4)
Purchased Demand	(\$17.8)
DOE Payment	\$25.7
Non-Retail Revenue	(\$4.0)
Total	(\$10.5)

Total 2016 Test Year increase with rate mitigation would be \$194.6 million

Embedded in the 2016's \$194.6 million increase is usage of the final 20% Theoretical Nuclear Depreciation Reserve that was approved in the previous rate case.

Rate Mitigation Cost Category	Revenue Requirement Increase (Decrease) \$ in Millions
Theoretical Nuclear Depreciation Reserve	(\$45.7)

If the Theoretical Nuclear Depreciation Reserve were not factored included in the estimate of Xcel's 2016 revenue deficiency, then the

Total 2016 Test Year increase without rate mitigation would be \$240.3 million

2017 MYRP Step Year

For the 2017 step-year, Xcel requested an additional \$52.1 million for a total \$246.7 million. The additional increase is a result of the following changes:

2017 Forecast Adjustments account for 115% of the requested increase:

2017 Step Year Forecast Adjustments	Revenue Requirement Increase (Decrease) \$ in Millions
Capital Forecast	\$66.6
Other Rate Base and Nonplant	\$0.4
Purchased Demand	(\$4.3)
Bad Debt Expense	(\$0.2)
FERC 925 & 926	\$2.0
Non-Decoupled Sales	(\$4.8)
Change in TCR Revenue	\$1.5
Transmission Rev/Exp	(\$1.1)
Total Forecast Adjustments	\$60.1

2017 Escalated Adjustments account for 30% of the requested increase:

2017 Step Year Escalated Adjustments	Revenue Requirement Increase (Decrease) \$ in Millions
Escalated O&M	\$16.5
Non-Retail Revenue	(\$0.9)
Total Escalated Adjustments	\$15.6

2017 Secondary Calculations account for a 45% *reduction* of the requested increase:

2017 Step Year Secondary Calculations	Revenue Requirement Increase (Decrease) \$ in Millions
Cash Working Capital	(\$0.4)
Net Operating Loss	(\$24.5)
Cost of Capital	\$1.3
Total Secondary Calculations	(\$23.7)

Total 2017 Step Year increase with rate mitigation would be \$246.7 million

2018 MYRP Step Year

For the 2018 step-year, Xcel requested an additional \$50.4 million for a three year total increase of \$297.1 million. The additional increase is a result of the following changes:

2018 Forecast Adjustments account for 82% of the requested increase:

2018 Step Year Forecast Adjustments	Revenue Requirement Increase (Decrease) \$ in Millions
Capital Forecast	\$47.0
Other Rate Base and Nonplant	\$0.5
Purchased Demand	(\$4.0)
Bad Debt Expense	(\$0.2)
FERC 925 & 926	\$2.6
Non-Decoupled Sales	(\$5.2)
Change in TCR Revenue	\$1.4
Transmission Rev/Exp	(\$0.9)
Total Forecast Adjustments	\$41.4

2018 Escalated Adjustments account for 32% of the requested increase:

2018 Step Year Escalated Adjustments	Revenue Requirement Increase (Decrease) \$ in Millions
Escalated O&M	\$16.5
Non-Retail Revenue	(\$0.4)
Total Escalated Adjustments	\$16.1

2018 Secondary Calculations account for a 14% *reduction* of requested increase:

2018 Step Year Secondary Calculations	Revenue Requirement Increase (Decrease) \$ in Millions
Cash Working Capital	(\$0.4)
Net Operating Loss	(\$6.5)
Cost of Capital	(\$0.2)
Total Secondary Calculations	(\$7.1)

Total 2018 Step Year increase with rate mitigation would be \$297.1 million

2016-2020 MYRP Alternative Proposal

As an alternative to the three year MYRP proposal, Xcel has proposed a five year plan that begins with the 2016 Test Year and, for the next four subsequent years, uses forecasted growth rates for capital, IHS escalation factors for O&M, and forecasted growth rates for sales to estimate a reasonable, smooth and inflationary deficiency pattern. Using this methodology, the Company proposed an annual incremental rate factor of 1.8% to be effected from 2017-2020.

PUC Staff Analysis

As shown in these briefing papers, Xcel's revenue, despite increased sales, is projected to be essentially flat for the three years of the MYRP. The reason for this seeming "disconnect" is that, despite increasing customer counts, sales per residential customer continue to decrease. These sales losses are being "replaced" by sales in other lower-margin classes.

Fortunately, it seems like Xcel's capital investments have peaked with average rate base slightly decreasing for both 2017 and 2018; therefore, upward rate increase pressure in future years is not as pronounced.

Since upward rate increase pressure is lower than in the recent past, the Company's alternative of a 1.8% rate increase for 2016 through 2020 seems, at first glance, to have some promise; however, Staff believes Xcel's alternative proposal needs additional development if it is to be seriously considered. For this reason, the Commission may want to instruct parties to develop the record on Xcel's alternative proposal in this proceeding as the rate case unfolds.

Customer Protection Mechanisms

As Customer Protection Mechanisms, Xcel has proposed the following three true-ups:

1. Symmetrical sales & retail revenues true-up for non-decoupled classes
 - a. The 2016 actual level would be reflected in final rates.
 - b. If the 2017 actual level were greater than the approved 2017 Plan Year level in final rates, a refund would occur, net of other true ups; if lower, the balance would be deferred, net of other true-ups.
 - c. If the 2018 actual level were greater than the approved 2018 Plan Year level in final rates, a refund would occur, net of other true-ups; if lower, the balance would be deferred, net of other true-ups.
2. Symmetrical true-up for property taxes
 - a. The 2016 actual level would be reflected in final rates.
 - b. If the 2017 actual level were less than the approved 2017 Plan Year level in final rates, a refund would occur, net of other true ups; if higher, the balance would be deferred, net of other true ups.
 - c. If the 2018 actual level were less than the approved 2018 Plan Year level in final rates, a refund would occur net of other true ups; if higher, the balance would be deferred, net of other true ups.
3. One way true-up for capital-related revenue requirements
 - a. If the 2016, 2017, or 2018 total actual capital-related revenue requirement is less than the approved 2016, 2017, or 2018 Plan Year level, a refund would occur, net of other true-ups.

Xcel pointed out that, should the Commission approve these new true-up mechanisms, authorization to create regulatory assets or liabilities would have to be granted.

PUC Staff Analysis

Staff interprets Xcel's proposal to symmetrically true-up sales & retail revenues for non-decoupled classes to essentially be a "decoupling proposal" for non-decoupled classes. Although Staff considers the Company's proposal to be worthy of consideration, Staff believes that Xcel's proposed netting of the sales & retail revenue true-up will be cumbersome and potentially contentious. The reason for concern is that, as Staff understands it, Xcel would net any true-ups against other possible customer refunds and those possible refunds may not be specific to non-decoupled classes only.

For simplicity and transparency in execution, the Commission may want to consider instructing parties to develop the possibility of adding all remaining non-decoupled classes to the current decoupling pilot program.

Staff finds Xcel's other proposed true-ups to be consistent to those agreed upon in the last rate case; therefore, Staff has no objections to them being continued.

Proposed Test Year Cost of Capital

The filing requirements regarding rate of return and cost of capital are found in Minnesota Rules, Part 7825.4200. These rules require the Company to provide:

- A. A rate of return cost of capital summary schedule showing the calculation of the weighted cost of capital using the proposed capital structure and the average capital structures for the most recent fiscal year and the projected fiscal year. This information shall be provided for the unconsolidated parent and subsidiary corporations, or for the consolidated parent corporation.
- B. Supporting schedules showing the calculation of the embedded cost of long-term debt, if any, and the embedded cost of preferred stock, if any, at the end of the most recent fiscal year and the projected fiscal year.
- C. Schedule showing average short-term securities for the proposed test year, most recent fiscal year, and the projected fiscal year.

The Company provided this information in Volume 3, Section II, Tab 5, "Rate of Return Cost of Capital Schedules".

Xcel is proposing a cost of equity of 10.00% and an overall cost of capital of 7.49% based on the following capital structure and cost of capital:

Component	Percent of Total	Cost Rate	Weighted Cost
Long-Term Debt	46.24%	4.81%	2.22%
Short-Term Debt	1.26%	1.84%	0.02%
Common Equity	52.50%	10.00%	5.25%
Total (ROR)			7.49%

In its most recent rate case, Xcel was authorized a 7.37% rate of return based on a cost of long term debt of 4.94%, a cost of short-term debt of 1.12% and a return on equity of 9.72%.

PUC Staff Comment

The Company appears to have complied with the cost of capital filing requirements.

Forecasting

Compliance with Previous Orders

The forecasting data was pre-filed on October 2, 2015. Xcel noted that ordering paragraph 18 on page 48 of the Commission's Sept. 3, 2013 Order in Xcel's 2012, rate case (E002/GR-12-961) required Xcel to provide forecasting data at least 30 days prior to the initial filing of its next rate case. Xcel stated that it provided the required information in its last rate case (E002/GR-12-961), and continued the practice in the current case by providing the required information on October 2, 2015.

Ordering paragraph 18 of the Commission's June 17, 2013, Order in Docket No. E,G-999/M-12-587 requires that an application for a multiyear rate plan must include testimony supporting:

- 1) The proposed sales forecast;
- 2) The sales forecast methodology;
- 3) An analysis of the historical accuracy of short-term, medium-term and long-term forecasts.

Company witness Ms. Jannell E. Marks stated that the October 2, 2015, filing provided the data used in the test year sales forecast. The information provided includes all customer counts, sales, weather, price, economic and binary data used, as well as the following:

- 1) An explanation of the source and work papers supporting the derivation or calculation of each of these data series, as well as a description and justification for each binary variable used.
- 2) All regression models and results, and a description of methods used and the results for the forecasts that are not based on a regression methodology.
- 3) A comparison and reconciliation of the input data, the variables used in the forecast models, and the test year forecast results to the data, models and forecast used in the Docket No. E002/GR-13-868.
- 4) An explanation of any exogenous adjustment made to the forecast.
- 5) An explanation of the unbilled sales estimation process for the test year and historical time period and all data necessary to recreate the conversion, including a description of the weather response coefficients and all data necessary to recreate the coefficients,

and an explanation of the calculation of calendar month weather response coefficients.

- 6) All data necessary to weather normalize historical calendar month sales.
- 7) Reconciliation between different sources for historical billing-month sales.
- 8) All large commercial and industrial customer account data, including customer name, account number, monthly sales, monthly margin rate, monthly demand charge, and any other charges from all available years.

The Company's forecast of MWh sales and customer counts for 2016 through 2020 are in Ms. Marks' testimony and attachments. The methodology for the forecast is on pages 32 through 40 and Schedules 7 and 8 of Ms. Mark's testimony. The analysis of the historical accuracy of short-term, medium-term and long-term forecasts is provided in Exhibit___(JEM-1), Schedule 2 and discussed in her testimony.

Schedule 2 shows that Xcel's forecast variance generally is smaller for short-term forecasts and larger for long-term forecasts. The Company's forecasts tend to overstate actual sales. The average long-term variance is -8.9 percent, medium-term is -5.2 percent and short-term is -1.5 percent.

Proposed Test Year Forecast

The Company projects sales to increase to 31,002,405 MWh in 2020. Total year-end retail customers are expected to increase from 1,274,015 customers in 2016 to 1,310,406 customers in 2020. The projected annual increases are listed in the following table:

Year	Customers	Increase	Sales (MWh)	Increase	
2016	1,274,015	0.7%	30,689,986	213,337	0.7%
2017	1,282,509	0.7%	30,695,949	5,963	0.02%
2018	1,291,306	0.7%	30,755,235	59,286	0.2%
2019	1,301,132	0.7%	30,866,808	111,573	0.4%
2020	1,310,406	0.7%	31,002,405	135,597	0.4%

Xcel projects increases in Commercial and Industrial sales and, due to declining use per customer, declining Residential sales. The declining use per customer is somewhat mitigated by increases in the number of Residential customers. Use per customer in the Small Commercial and Industrial sector is projected to be flat or slightly declining over the next five years.

Company witness Ms. Marks provided the following table of growth rates of sales from 1998 to a forecasted 2020:

1998-2020 Percent Change in MWh Sales

	Residential	Commercial & Industrial	Street Lighting	Public Authority	Interdepartmental	Total Retail
1998-2007 Average	2.2%	1.3%	0.8%	-1.8%	0.1%	1.6%
2008	-1.7%	1.1%	0.2%	-9.9%	-41.7%	0.3%
2009	-0.3%	-4.7%	1.3%	-0.4%	29.5%	-3.4%
2010-2011 Average	0.1%	0.5%	1.9%	-3.6%	-5.8%	0.4%
2012-2013 Average	-0.6%	-1.6%	0.9%	-3.3%	-1.3%	-1.3%
2014	0.6%	0.4%	-1.7%	-4.0%	43.2%	0.4%
2015 Forecast	-1.6%	0.0%	-1.9%	4.5%	-12.4%	-0.4%
2016 Forecast	0.2%	0.9%	4.4%	1.2%	-6.1%	0.7%
2017 Forecast	-1.0%	0.4%	0.9%	-1.2%	0.0%	0.0%
2018 Forecast	-0.5%	0.5%	0.7%	-0.1%	0.0%	0.2%
2019 Forecast	-0.7%	0.8%	0.7%	-0.6%	0.0%	0.4%
2020 Forecast	-0.6%	0.8%	0.6%	-0.5%	0.0%	0.4%

PUC Staff Comment

The Company appears to have provided the forecasting information required by the Commission.

Class Cost of Service Study

Rule Requirement

Minnesota Rules, Part 7825.4300 (c) requires a request for a change in rates to include:

A cost-of-service study by customer class of service, by geographic area, or other categorization as deemed appropriate for the change in rates requested, showing revenues, costs, and profitability for each class of service, geographic area, or other appropriate category, identifying the procedures and underlying rationale for cost and revenue allocations. Such study is appropriate whenever the utility proposes a change in rates which results in a material change in its rate structure.

Xcel provided a class cost of service study in Volume 3, Required Information, II. Required Financial Information, 6. Rate Structure and Design Information (Rule 7825.4300), Tab C. Test Year 2016, 2017 and 2018 Class Cost of Service Study.

Rate Case Order Requirements

- **June 17, 2013 Order in Docket No. E,G999/M-12-587**

Order Point 17(e) of the Commission's Order required that:

An application for a multiyear rate plan must include or be accompanied by all the information required for a general rate case, including but not limited to – Other financial schedules and cost projections filed in conjunction with a general rate change as described in Minn. Rule 7825.3800 to 7825.4500.

This Ordering Point covers Minn. Rule 7825.4300. It was addressed in the rule requirement above.

- **September 3, 2013, Order in Docket No. E002/GR-12-961**

Ordering paragraphs 22 and 23 from the Commission's September 3, 2013, stated:

22. Xcel shall allocate its Conservation Cost Recovery Charge using the per-kWh method as recommended by the Department. The Commission adopts the Department's proposed changes to ALJ Finding 651 as amended, to read as follows:

651. Although the Company has supported its reasonable method of CIP cost allocation, the Administrative Law Judge acknowledges, for consistent treatment of the allocation of CIP costs for all utilities, consistent with the Commission's decision in Docket E002/M-11-278, that Xcel should use the per-kWh method of allocating CIP costs.

23. Xcel shall reallocate transmission facility costs in this rate case in a manner consistent with its allocation of capacity costs, according to contribution to summer peak demand.

On pages 40 and 41 Xcel witness Mr. Peppin discusses the allocation of the CCRC on a per kwh basis. Mr. Peppin also discusses the allocation of Transmission in the CCROSS.

- **May 8, 2015, Order in Docket No. E-002/GR-13-868**

The Commission's May 8, 2015, Findings of Fact, Conclusions, and Order in Docket No. E-002/GR-13-868, pages 67 and 69 and ordering paragraphs 35 through 39, included the following:

Page 67 of the Commission's Order states:

The Commission concurs with the ALJ that the record in this case does not contain the data needed to calculate a capacity allocator based on MISO's system peak, and it adopts her conclusion to that effect.

However, the Commission also agrees that the OAG has raised an important issue. Calculating a capacity allocator based on each customer class's contribution to Xcel's system load coincident with MISO's system peak would better reflect each class's share of the costs of meeting MISO's planning reserve margin. For the Company's next rate case, the Commission encourages Xcel to work with MISO and other parties to recalculate the D10S Capacity Allocator on the basis of MISO's peak for purposes of comparison with Xcel's peak.

Page 69 of the Commission's Order states:

For the foregoing reasons, the Commission will require Xcel to modify its 2014 and 2015 class-cost-of-service studies to use the location method to allocate other production O&M costs. Further, in its next rate case, the Company should continue using the location method to allocate these costs. It should also explain each allocation method used in its class-cost-of-service study, as more fully detailed in the ordering paragraphs.

The Ordering paragraphs state:

37. In its next rate case, Xcel shall refine its class-cost-of-service study cost-allocation method by identifying any and all other production O&M costs that vary directly with the amount of energy produced based on Xcel's analysis. If Xcel's analysis shows that such costs exist, then Xcel should classify these costs as energy-related and allocate them using appropriate energy allocators, while allocating the remainder of other production O&M costs on the basis of the production plant.
38. In its next rate case the Company's class-cost-of-service study shall include an explanatory filing identifying and describing each allocation method used in the study and detailing the reasons for concluding that each allocation method is appropriate and superior to other allocation methods considered by the Company, whether those methods are based on the Manual of the National Association of Regulatory Utility Commissioners or the Company's specific system requirements, its experience, and its engineering and operating characteristics. The Company shall also explain its reasoning in cases in which it did not consider alternative methods of allocation or classification.
39. In its next rate case, Xcel shall provide parties with data sufficient to verify and reproduce its minimum-system study and shall file a zero-intercept analysis of distribution costs, or explain why it was not able to collect the data necessary to do so

Mr. Peppin summarized the compliance requirements for 13-868 as:

- **Docket No. E-002/GR-13-868 Case Compliance Items**

Add Explanation of Allocation Methods

Compliance Item	Description
5/8/15 Order Pg 67	Work with Parties to recalculate the D10S Capacity Allocator
5/8/15 Order Pg 69 and Order Pt 37	Use Location Method for Other Production
5/8/15 Order Pt 38	Add Explanation of Allocation Methods
5/8/15 Order Pt 39	Minimum System and Zero Intercept Studies
8/31/15 Order Pt 12	Provide data linkages in the CCOSS model and more input transparency

On page 4 of his testimony, Xcel witness Mr. Peppin explained that Exhibit (MAP-1), Schedule 2 of his testimony contains a document titled “Guide to Class of Service Study”. It explains how the CCOSS was conducted, describes how each of the cost allocation factors was developed, and identifies the cost items to which each allocator is applied. As ordered by the Commission in the Company’s most recent case, Docket No. E002/GR-13-868, the CCOSS Guide has been enhanced to detail each allocation method used in the study.

Mr. Peppin stated that it also provided information on why each allocation method is appropriate compared to other allocation methods and the manual of the National Association of Regulatory Utility Commissioners (NARUC).

Work with Parties to recalculate the D10S Capacity Allocator

As noted above, the Commission’s May 8, 2015, Order in Docket No. E-002/GR-13-868, encouraged Xcel to work with MISO and other parties to recalculate the D10S Capacity Allocator on the basis of MISO’s peak for purposes of comparison with Xcel’s peak.

On page 27 of his direct testimony, Mr. Peppin stated that page 34, Table 6.1-1 of Midcontinent Independent System Operator, Inc.’s (MISO) Planning Year 2015-2016 Loss of Load Expectation Study Report shows that the forecasted peak hour for the 2016 test year for Local Resource Zone 1 is July 14, 2016 at 16:00 EST or 3:00 PM CST. The D10S allocator is calculated based on forecasted class loads for that specific hour.

Use Location Method for Other Production

Page 24 of Mr. Peppin's direct testimony has a section titled "4. Classification and Allocation of Other Production O&M". In that section, Mr. Peppin notes that the Commission Ordered Xcel to analyze the nature of Other Production O&M costs in order to identify those costs that vary directly with the amount of energy produced. He explained that in response, Xcel examined each of the 91 cost items that make up Other Production O&M costs. Based on their analysis, the only Other Production O&M costs that vary directly with energy output are chemicals and water use costs.

Add Explanation of Allocation Methods

The explanations are contained throughout Mr. Peppin's testimony.

Minimum System and Zero Intercept Studies

Mr. Peppin's testimony discusses the minimum system and zero intercept studies. Xcel included the results of its Minimum Distribution System and Zero Intercept studies as Exhibit (MAP-1) Schedule 11.

Provide Data Linkages in the CCOSS Model and More Input Transparency

On pages 15 and 16, Xcel witness Mr. Peppin stated the CCOSS now has direct links to all inputs used in the model. Additional worksheet tabs have been added that identify all financial and non-financial inputs with direct linkages for all calculations in the CCOSS model. If the Commission orders changes in cost allocation methods, interested parties will be able to determine whether the ordered changes have been implemented.

- **August 31, 2015 Order in Docket No. E002/GR-13-868**

Order Point No. 12(a)-12(c) of the Commission's August 31, 2015 Order in Docket No. E002/GR-13-868 required:

In future rate cases, the Company shall:

- a. ensure internal consistency within its CCOSS and provide direct links to all inputs used in its model;
- b. include specific tabs within its CCOSS model that clearly identify all inputs (non-financial and financial) as well as all relationships between variables used in the cost model;
- c. link input sources to the financial data and non-financial data filed in the record so that any changes made in compliance are clearly and promptly reflected in the relevant compliance cost study; and

As noted above, Xcel represents that the CCOSS now has direct links to all inputs used in the model. In addition, there are now 56 tabs in the CCOSS Excel file with the first spreadsheet tab

labeled “CCOSS Worksheet Tab Index” provided a list of all worksheet tabs. It also provides a detailed description of the data and calculations that are included within each spreadsheet tab.

Addressing requirement c, Xcel stated that there are 22 spreadsheet tabs with a prefix of “Input Data.” These tabs provide financial and non-financial inputs to the CCOSS model. For example, the results from the Minimum System/Zero Intercept study. One tab also shows the resulting split of rate base costs into baseload and peaking components based on the Company’s plant stratification analysis.

PUC Staff Comment

The Company represented that all financial and non-financial inputs, along with all associated calculations, are now included as part of the CCOSS model. This appears to be the case, however, staff has not tested the CCOSS and its links.

Proposed Rate Design

Xcel Energy's filing proposes several changes in rate design. The following is a summary of some of the proposed changes and is not meant to be a complete or comprehensive catalog of Xcel's rate design proposal in this docket.

Class Revenue Apportionment

The table below displays Xcel Energy's proposed apportionment of each customer class' responsibility for its revenue requirements under current and proposed rates, as well as the proposed dollar amount and percentage increase for each customer class:

Xcel Energy's Current and Proposed Revenue Apportionment						
	Number of Customers	Sales (GWh)	Revenues (\$000s)		Increase	
			Current	Proposed	(\$000s)	%
2016						
Residential	1,131,309	8,559	1,079,697	1,170,351	90,654	8.40%
C&I Non-Demand	85,885	923	110,746	115,277	4,531	4.09%
C&I Demand	48,189	21,021	1,816,281	1,912,631	96,350	5.30%
Lighting	2,249	178	26,561	29,217	2,656	10.00%
Total	1,267,632	30,681	3,033,285	3,227,476	194,191	6.40%
2017						
Residential	1,131,309	8,559	1,079,192	1,195,214	116,022	10.75%
C&I Non-Demand	85,885	923	110,693	117,295	6,602	5.96%
C&I Demand	48,189	21,021	1,815,354	1,935,239	119,885	6.60%
Lighting	2,249	178	26,561	30,172	3,611	13.60%
Total	1,267,632	30,681	3,031,800	3,277,921	246,121	8.12%
2018						
Residential	1,131,309	8,559	1,078,704	1,214,465	135,761	12.59%
C&I Non-Demand	85,885	923	110,642	119,131	8,489	7.67%
C&I Demand	48,189	21,021	1,814,458	1,962,542	148,084	8.16%
Lighting	2,249	178	26,561	30,702	4,141	15.59%
Total	1,267,632	30,681	3,030,366	3,326,840	296,474	9.78%

Source: Huso Direct, November 2, 2015, Schedule 4, pages 1-3.

As the table displays, each customer class would see an increase in each year under Xcel Energy's proposed apportionment; however, the magnitude of the increase differs considerably between classes, with Residential and Lighting customers allocated considerably larger increases than the C&I demand class. Though the Residential class consumes only 28% of total energy sales, Xcel apportioned it nearly half (46.5%) of the total revenue increase; conversely, while the C&I Demand class consumes 69% of the total energy, it is allocated only 49% of the total revenue increase.

Basic Monthly Service Charges

Xcel Energy proposed a \$2.00 increase in the fixed customer charges for residential and small commercial customers.¹⁰ In percentage terms, Xcel's proposed increase to fixed charges is more than double its proposed increase to base energy rates. The proposed fixed charge increases are also considerably larger than Xcel Energy requested in its previous rate case, where the Company requested an increase of \$1.25 and \$1.50 for Residential and Small General Service customers, respectively¹¹; in that case, the Commission ultimately rejected Xcel's proposed increase.¹²

Xcel Energy's Proposed Fixed Charge Increases

Service Category	Current	Proposed	Increase
Residential Standard- Overhead	\$8.00	\$10.00	25.0%
Residential Standard- Underground	\$10.00	\$12.00	20.0%
Residential Electric Heating- Overhead	\$10.00	\$12.00	20.0%
Residential Electric Heating- Underground	\$12.00	\$14.00	16.7%
Small General Service	\$10.00	\$12.00	20.0%

Source: Huso Direct, November 2, 2015, Schedule 6, pages 1-2.

Xcel Energy's Proposed 2016 Base Rate Increases (per kWh rates do not include fuel)

	Current (per kWh)	Proposed (per kWh)	Increase
Residential base rates			
Summer	9.395¢	10.548¢	12.27%
Winter	8.04¢	8.998¢	11.92%
Winter- Electric Heating	5.819¢	6.105¢	4.91%
Small General Service base rates			
Summer	8.787¢	9.415¢	7.15%
Winter	7.432¢	7.866¢	5.84%

Source: Huso Direct, November 2, 2015, Schedule 6, pages 1-2.

¹⁰ Specifically, the Company proposed a \$2.00 increase for the following rate schedules: Residential Service, Residential Time-of Day Service, Small General Service, and Small General Time-of Day Service.

¹¹ Docket 13-868, Exhibit 105 (Huso Direct), at page 27.

¹² Docket No. E-002/GR-13-868, FINDINGS OF FACT, CONCLUSIONS, AND ORDER, May 8, 2015, at page 88.

Low Income Discount

Pursuant to a recent Commission Order¹³, the Company has filed a proposal to recover Low Income Discount Program costs through base rates. The Company's proposal is described on pages 11-14 of the Direct testimony of Steven V. Huso.

Xcel also proposes a new \$3 million per-year bill payment assistance program for 1) seniors (age 62 and over) with an income level just above the 50 percent of state median income guideline currently used for determining eligibility for energy assistance, and 2) customers with chronic or severe medical conditions. The Company's proposal is described on pages 35-37 of the Direct testimony of Michael C. Gersack.

Interruptible Service Discounts

The Company also proposed an increase to interruptible service discounts of roughly two percent for nearly all classes. This increase is considerably smaller than the increase initially proposed by the Company in its most recent general rate case.¹⁴

Residential Time of Use Service

The Company proposed to reduce the on/off-peak rate ratio for its Time of Use service. Currently, on-peak rates are 3.5 times higher than off-peak rates; Xcel proposed to reduce the ratio to 3.0 to 1, to bring the ratio closer to the Company's forecasted marginal cost ratio of 2.6 to 1. Staff notes this will reduce the incentive for participants to shift their energy consumption from on- to off-peak hours.

Residential Alternative Rate Design Docket (15-662)

In Xcel Energy's most recent general rate case, the Commission directed the Minnesota Department of Commerce to undertake a stakeholder process to consider Inclining Block Rate structures and "other alternative rate designs that result in rates that promote energy conservation, reduce peak demand, and/or send more accurate, useful price signals to customers."¹⁵ The Department was directed to convene stakeholder meetings and issue a report to the Commission on the stakeholder process within 180 days of the Commission's Order. The Department held stakeholder meetings on September 11th and October 5th of 2015, and its *Report on Alternative Rate Design Options* in was filed in Docket 15-662 on November 10th.

Procedural issues related to this docket are on the Commission's agenda for this (December 10th) meeting.

¹³ See the Commission's September 26, 2014 Order in Docket No. E-002/M-04-1956.

¹⁴ Docket 13-868, Exhibit 105 (Huso Direct), at page 15.

¹⁵ Docket No. E002/GR/13-868, Findings, Conclusions and Order, May 8, 2015, Ordering Paragraph 45, page 104.

Revenue Decoupling Mechanism

In Xcel's last rate case, the Commission approved a three-year Decoupling pilot, with the calculation of over- or under-recovery of nonfuel costs to begin after the final compliance order authorizing implementation of final rates, but not before new rates take effect, and no sooner than January 1, 2016.¹⁶ The Commission required that baseline fixed revenue per customer and baseline fixed energy charges are to be set using the authorized revenues from final rates, if the Company files a test year 2016 rate case.¹⁷

Xcel stated it is not requesting any changes to the approved revenue decoupling mechanism (RDM) structure for the three-year decoupling pilot timeframe. According to Xcel, its implementation plan reflects the Commission's May 8, 2015 and August 31, 2015 Orders in the 2013 Rate Case Docket. However, Xcel does propose changes to the Decoupling term and cap for 2019 and 2020, if a five-year MYRP is pursued.

Xcel stated it will begin calculating monthly decoupling deferrals in January 2016, at the same time interim rates are in effect. According to Xcel, the RDM does not affect how the interim rate refund is calculated, since they are separate mechanisms designed to adjust revenues for different purposes. Xcel stated it will implement decoupling deferral calculations using interim rates until final rates and revenue levels are available, in the manner ordered by the Commission.

As required by the Commission, Xcel stated the monthly baseline fixed revenue per customer and baseline fixed energy charges will be calculated using 2016 test year sales and rates, including interim rates, in effect during each month of the deferral. Xcel described that authorized revenues will be calculated using the baseline fixed revenue per customer and actual monthly customer count, on a monthly basis throughout the interim rate period and actual revenues will be calculated using the baseline fixed revenue per customer and actual monthly sales. The Decoupling deferral is equal to the over- or under-recovery between authorized and actual revenues each month.

At the time of final rate compliance for this current rate case, Xcel stated the 2016 deferral will be recalculated using the approved percentage increase in revenue instead of the interim rate percentage increase. The Company stated it will file proposed RDM factors based on the recalculated 2016 annual deferral and the sales forecast in place at that time. The 2017 monthly deferrals will also be recalculated for the interim rate period, using the approved final rates in place of 2017 interim rates.

The currently approved RDM has a three-year term and if the five-year MYRP is approved, the Company proposes to match the term of the RDM to the MYRP term. Xcel stated that aligning the term of the Decoupling pilot with the MYRP term provides customers, the Company and the Commission with a consistent five-year plan. The Company's stated its plan allows for implementation of the RDM as ordered by the Commission during the MYRP and interim rate period.

¹⁶ Ibid, at Ordering Paragraph 40, May 8, 2015, page 102.

¹⁷ Id., Order Reopening, Clarifying and Supplementing May 8, 2015 Order, Ordering Paragraph 8, August 31, 2015, page. 19.

Xcel stated that if the five-year MYRP is approved, the cap would need to be expanded to account for the potential increase in sales variance over five years instead of three. Therefore, Xcel is requesting that the Decoupling surcharge cap be raised from three percent to five percent in the fourth and fifth years to account for the cumulative impact of conservation and energy efficiency. According to Xcel, the further away from the baseline test year, the larger the cumulative energy savings impact from conservation and energy efficiency will be. The Company claimed that raising the cap in the fourth and fifth year removes any potential disincentive to the continued pursuit of further conservation and would allow for a smoother bill impact for the customer instead of pushing recovery into years where the Company may be more likely to have higher cumulative energy savings impacts.

Staff Analysis

Should this filing be accepted, and if so, as of what date?

Completeness

Statutes, Rules, and Orders

Minn. Stat. §216B.16, subd. 1, requires a public utility to give the Commission a sixty day notice prior to changing rates. The statute requires the notice to include:

... statements of facts, expert opinion, substantiating documents, and exhibits, supporting the change requested, and state the change proposed to be made in the rates then in force, and the time when the modified rates will go into effect.

Minn. Rules, Parts 7825.3100 through 7825.4400, implement the above statute by setting out specific rate case filing requirements. Various parts of the Commission's rules of practice and procedure, Minn. Rules, Chapter 7829, are also relevant.

Staff reviewed this filing for compliance under Minn. Stat. § 216B.16 and Minn. Rules 7825.3100 through 7825.4400. Staff agrees with the Department's analysis and believes Xcel's filing substantially complies with these requirements.

Compliance with and issues from prior Commission orders/recent and pending dockets before the Commission

Commission orders in various dockets require that certain information be filed and issues addressed in future rate cases. These requirements are also examined in determining completeness of the filing.

Staff, in agreement with the Department, believes the Company has made a good faith effort to comply and respond to the orders issued in Xcel's last rate case as well as other orders that have a bearing on this case. Staff recognizes the Company has put a considerable amount of work into this effort as evidenced by its 45-page "Completeness Matrix" which is attached to Aakash Chandarana's direct testimony as Schedule 2.

Compliance with the Commission's Order establishing terms, conditions and procedures for multiyear rate plans (Docket No. E,G-999/M-12-587) under Minn. Stat. § 216B.16, subd. 19 & subsequent 2015 revisions to Minn. Stat. § 216B.16, subd. 19

Staff believes the Company has complied with the required terms, conditions and procedures for a multiyear rate plan in the Commission's June 17, 2013 order. Staff agrees with the Department that the reasonableness of Xcel's proposed MYRP is one of the central issues in this case.

Date of Acceptance

Staff considers Xcel's November 10, 2015 supplemental filing to be additive to the initial filing; therefore, Staff recommends that the Commission find Xcel's rate case filing is substantially complete as to form as of November 2, 2015. However, staff has no objection to the later date either.

Should the Commission suspend the proposed rates, and, if so, for what period?

The Commission generally suspends proposed final rates during a rate case while the Company's application is investigated. The statute provides for interim rates during the suspension period. These interim rates are subject to refund if they are higher than approved final rates.

Because Xcel's application includes a proposal for a multiyear rate plan and there are other rate cases pending, the Commission, pursuant to Minn. Stat. § 216B.16, subds. 2(a),¹⁸ 2(f)¹⁹ and 19(d),²⁰ has the authority to extend the deadline for issuing its final order in this matter for up to one-hundred-and-eighty ("180") days past the normal ten month statutory deadline. If this case is accepted as substantially complete as of November 2, 2015, and the deadline is extended by one-hundred-and-eighty ("180") days, then the Commission's deadline for issuing an order would be March 1, 2017.

If the Commission finds Xcel's case was made substantially complete as of November 10, 2015, and accepts Xcel's filing as of that date, then that date would become the starting point for the suspension period. If the Commission extends the deadline by 180 days, pursuant to the computation of time statute,²¹ the new deadline would be Monday, March 13, 2017.²²

¹⁸ Minn. Stat. §216B.16, subd. 2(a). Whenever there is filed with the commission a schedule modifying or resulting in a change in any rates then in force as provided in subdivision 1, the commission may suspend the operation of the schedule by filing with the schedule of rates and delivering to the affected utility a statement in writing of its reasons for the suspension at any time before the rates become effective. The suspension shall not be for a longer period than ten months beyond the initial filing date except as provided in this subdivision or subdivision 1a.

¹⁹ Minn. Stat. §216B.16, subd. 2(f). If the commission finds that it has insufficient time during the suspension period to make a final determination of a case involving changes in general rates because of the need to make a final determination of any pending case involving changes in general rates under this section or section 237.075, the commission may extend the suspension period to allow up to a total of 90 additional calendar days to make the final determination. An extension of the suspension period under this paragraph does not alter the setting of interim rates under subdivision 3.

²⁰ Minn. Stat. §216B.16, subd. 19(d). In reviewing a multiyear rate plan proposed in a general rate case under this section, the commission may extend the time requirements for issuance of a final determination prescribed in this section by an additional 90 days beyond its existing authority under subdivision 2, paragraph (f).

²¹ Minn. Stat. § 645.15 COMPUTATION OF TIME.

Where the performance or doing of any act, duty, matter, payment, or thing is ordered or directed, and the period of time or duration for the performance or doing thereof is prescribed and fixed by law, the time, except as otherwise provided in sections 645.13 and 645.14, shall be computed so as to exclude the first and include the last day of the prescribed or fixed period or duration of time. When the last day of the period falls on Saturday, Sunday, or a legal holiday, that day shall be omitted from the computation.

²² The last day of the normal ten-month statutory period falls on a Saturday (September 10, 2016) and pursuant to the computation of time statute, the ten-month statutory time period thus ends on Monday, September 12, 2016. The

In its November 12, 2015 comments, in this docket, the Department recommended an extension of the suspension period for ninety plus ninety calendar days. Xcel, in its response, agreed with the Department “that the timeline for review can be extended by 180 days beyond the typical rate case timeline of ten months.”

PUC Staff Comment

The Commission has three other general rate cases pending at the Office of Administrative Hearings (OAH). The first (filed approximately three months before the Xcel case) is the CenterPoint Energy (CenterPoint) rate case, in Docket No. G-008/GR-15-424. The Commission did not extend the suspension period in the CenterPoint rate case.

The second pending rate case (filed approximately one month before the Xcel case and two months after CenterPoint) is the Great Plains Natural Gas Company (Great Plains) rate case, in Docket No. G-004/GR-15-879. In the Great Plains rate case, the Commission extended the suspension period by thirty days because of other pending rate cases.

The third pending rate case (filed approximately one month before the Xcel case and two months after CenterPoint) is the Minnesota Energy Resources Corporation (MERC) rate case, in Docket No. G-011/GR-15-736. In the MERC rate case, the Commission extended the suspension period by ninety days because of other pending rate cases.

Absent a 180 days extension of time in the Xcel rate case, staff does not believe there will be an adequate or sufficient amount of time for the Commission to make determinations in the four pending rate cases. Staff believes extra time in the Xcel rate case would allow for more flexible scheduling and a more careful evaluation of Xcel’s MYRP proposal.

The Department, OAG, and other parties who wish to participate in the CenterPoint, Great Plains, MERC and Xcel rate cases could also be disadvantaged, and the records in these cases may not be developed adequately, if the Commission does not extend the suspension period in the Xcel matter. The Department and other interveners will need, in a relatively short period of time, to prepare testimony and/or participate in evidentiary hearings in all four pending rate cases, as well as prepare briefs, participate in oral argument, work on reconsideration, while also carrying out discovery and investigation in these rate cases.

As has been the Commission’s practice over the last several years, Commission and Department staff discussed rate case scheduling and have developed schedules that allow all of these cases (as well as other pending and expected contested case matters) to be workable from both intervener and Commission perspectives. Staff’s recommendation to extend the suspension period is based on staff’s understanding of what is workable for the Department and the Commission.

first 90 day extension, starting on September 12, 2016 would then end on Sunday, December 11, 2016. This date would be adjusted to Monday, December 12, 2016. The second 90 day extension, starting on December 12, 2016 would then end on Sunday, March 12, 2017, and would adjust to Monday, March 13, 2017.

(A corresponding Staff recommendation on the request date for the ALJ report is discussed in the next subsection).

Staff recommends that the Commission find that it will have insufficient time under the standard ten-month time frame to make a determination on final rates in the instant Xcel rate case because of the need to make final determinations in the pending CenterPoint, Great Plains and MERC rate cases. While the Commission did not extend the deadline in the CenterPoint rate case, the Commission did extend the deadline in the Great Plains case by thirty days, and the MERC case by ninety days. Staff is recommending a 180 day extension in this Xcel rate case to keep the four cases separated and to avoid as many overlapping deadlines as possible.

If this filing is accepted, should this matter be referred to the Office of Administrative Hearings (“OAH”) for a contested case?

The Department recommended the Commission refer this matter to OAH for a contested case proceeding. The Commission is required to refer a rate case to OAH for a contested case proceeding unless the Commission finds that all significant issues can be resolved to its satisfaction, pursuant to Minn. Stat. § 216B.16, subd. 2(b). Staff does not believe the Commission can make such a finding absent a fully developed record and recommends the Commission refer this matter to OAH for a contested case hearing.

If the Commission does not suspend final rates for the additional one-hundred-and-eighty day period and the deadline for the Commission’s order in this case is September 2, 2015, then to ensure the Commission has sufficient time to consider this matter and issue its order within the ten month statutory deadline, staff recommends the Commission request the ALJ’s report by July 1, 2016. This is consistent with the Commission’s practice of asking for the ALJ report approximately two months prior to the ten-month statutory deadline for issuing an order.

If the Commission suspends the final rates for additional time, i.e. until March 1, 2017, then staff recommends the Commission request the ALJ’s report by November 15, 2016. This report date would give the Commission approximately three-and-a-half months (including holidays) to work with the ALJ’s recommendation prior to the deadline for issuing an order. Staff believes this is reasonable given the longer suspension period, the number of other pending rate cases, and the complexity of this case. Staff’s understanding is that the Department is in agreement with this date if the case is accepted as substantially complete as of November 2, 2015.

However, because the Department has recommended an acceptance date of November 10, 2015, staff has developed a set of decision alternatives that correspond to that date as well as the November 2 date. Please see the last row of the following table.

Case filed: November 2, 2015	ALJ Report Requested	Deadline for PUC Order
10 month deadline (§216B.16, subd. 2(a))	Jul. 1, 2016	Sep. 2, 2016
10 month deadline + 180 days (§216B.16, subds. 2(f) and 19(d))	Nov. 15, 2016	Mar. 1, 2017
Case accepted as of November 10, 2015 with 10 month deadline + 180 days (§216B.16, subds. 2(f) and 19(d))	Nov. 23, 2016	Mar. 13, 2017

Identification of issues of special interest or requiring additional, supplemental testimony

If the Commission accepts this filing and refers this matter to the Office of Administrative Hearings, the Commission may want to include in its Notice And Order For Hearing, a request that parties thoroughly address and develop a complete record (e.g. in testimony, at hearing, and if applicable, in settlement documents), in addition to the standard rate case issues, the issues noted below, and any others the Commission may identify.

Xcel presented a Filing Requirement Compliance Table in its November 4 filing which includes a list of information required under a number of Commission orders and where in Xcel's pre-filed testimony these issues are addressed. The Commission may want to include a general request that parties thoroughly review issues identified in the Commission's past orders. If the Commission wants to give special emphasis to any of these particular requirements, it could do so at this time.

If the Commission wishes to identify issues of special interest, then the Commission may want to request that parties specifically and thoroughly address one or more the following issues in the course of the contested case proceedings:

First, as an alternative to the three-year MYRP, Xcel has proposed a five-year plan whereby an automatic 1.8% increase is approved for years two through five (2017-2020). While Staff considers this proposal to have merit, Staff does not believe that the Company's five-year proposal includes enough information for the Commission to make a decision; therefore, Staff recommends that the Commission request that the proposal be further developed throughout this proceeding.

Second, Xcel has proposed a sales & retail revenues true-up for non-decoupled classes. Staff considers Xcel's proposal to essentially be a decoupling mechanism for the non-decoupled classes; therefore, it seems to make more sense to incorporate these classes to the currently approved revenue decoupling pilot. Staff recommends that the Commission request that the possible inclusion of all classes in the revenue decoupling program be further developed throughout this proceeding.

Third, investment tax credits encourage development and can effectively lower a qualifying projects overall cost. Xcel's Border Winds project located in North Dakota will not only have potential federal production tax credits but will qualify for state investment tax credits as

well. Staff recommends the Commission request parties to address the issue of the how state investment tax credits should be considered when determining the project's cost recovery from Minnesota ratepayers.

If this filing is accepted, should interim rates be set as requested by the Company?

Xcel requested Commission approval of its proposed multi-year rate plan interim rate revenue deficiency of \$163,670,000 for 2016, a 5.5 percent increase above interim present revenues. Xcel proposed to collect interim rates as an equal percentage increase of 7.75 percent to all of base rate elements except fuel and purchased energy costs and certain rate riders and charges listed in Xcel's interim rate surcharge rider (Section 5, 11th Revised Sheet No. 94). Xcel proposed to show the interim rate increase as a single line item on customer bills. Xcel requested interim rates be made effective for service rendered on and after January 1, 2016.

The Company also proposed an incremental 2017 interim increase of \$44,900,000 for a total 2017 interim rate of \$208,570,000, a 7.0 percent increase above interim present revenues for 2017. Xcel requested that the proposed 2017 interim rate be effective for service rendered on and after January 1, 2017. For 2017 the increase will be uniformly billed as a 9.88 percent increase on the base rate portion of customers' bills.

Effective date for interim rates

If the Commission accepts Xcel's filing as substantially complete as of November 2, 2015, and suspends the proposed final rates, then the Commission must order interim rates into effect within 60 days, i.e. no later than Friday, January 1, 2016, pursuant to Minn. Stat. § 216B.16, subd. 3(a).

Interim rate statute

Interim rates are governed by Minn. Stat. § 216B.16 Subd. 3 which provides in part:

(a) Notwithstanding any order of suspension of a proposed increase in rates, the commission shall order an interim rate schedule into effect not later than 60 days after the initial filing date. The Commission shall order the interim rate schedule ex parte without a public hearing. . . . [and]

(b) Unless the commission finds that exigent circumstances exist, the interim rate schedule shall be calculated using the proposed test year cost of capital, rate base, and expenses, except that it shall include: (1) a rate of return on common equity for the utility equal to that authorized by the commission in the utility's most recent rate proceeding; (2) rate base or expense items the same in nature and kind as those allowed by a currently effective order of the commission in the utility's most recent rate proceeding; and (3) no change in the existing rate design. . . .

Financial Matters

The following tables compare Xcel's proposed interim rates with its proposed final rates showing the changes in the components of the calculation of the revenue deficiency for 2016 and 2017.

(\$000s)	Proposed 2016 Final Rates	Proposed 2016 Interim Rates	Difference
Rate Base	\$ 7,836,115	\$ 7,452,310	\$(383,805)
Rate of Return	7.49%	7.34%	-0.15%
Return on Equity	10.00%	9.72%	-0.28%
Required Operating Income	\$ 586,925	\$ 547,000	\$ (39,925)
Revenues	\$ 3,621,078	\$ 3,560,322	\$ (60,756)
Expenses	\$ 3,181,537	\$ 3,143,166	\$ (38,371)
AFUDC	\$ 33,283	\$ 33,884	\$ 601
Net Operating Income	\$ 472,824	\$ 451,040	\$ (21,784)
Income Deficiency	\$ 114,101	\$ 95,960	\$ (18,141)
Conversion Factor	1.70561	1.70561	
Revenue Deficiency	\$ 194,612	\$ 163,670	\$ (30,942)

(\$000s)	Proposed 2017 Final Rates	Proposed 2017 Interim Rates	Difference
Rate Base	\$ 7,739,688	\$ 7,393,822	\$(345,866)
Rate of Return	7.51%	7.36%	-0.15%
Return on Equity	10.00%	9.72%	-0.28%
Required Operating Income	\$ 581,251	\$ 544,185	\$ (37,066)
Revenues	\$ 3,629,772	\$ 3,566,242	\$ (63,530)
Expenses	\$ 3,233,825	\$ 3,186,227	\$ (47,598)
AFUDC	\$ 40,683	\$ 41,885	\$ 1,202
Net Operating Income	\$ 436,630	\$ 421,900	\$ (14,730)
Income Deficiency	\$ 144,621	\$ 122,285	\$ (22,336)
Conversion Factor	1.70561	1.70561	
Revenue Deficiency	\$ 246,667	\$ 208,571	\$ (38,096)

Return on Equity

The statute requires Xcel to use the rate of return on common equity (ROE) equal to that authorized by the commission in the utility's most recent rate proceeding. In this rate case, Xcel is requesting an ROE of 10.0 percent for final rates. For determining the interim rate revenue deficiency, Xcel is required by the statute to use the 9.72 percent ROE authorized in the 13-868 rate case. Approximately \$19 million of the decrease in the revenue deficiency from the proposed final case for both 2016 and 2017 is due to the lower ROE.

Rate Base and Operating Income Adjustments

The statute further requires that rate base or expense items be the same in nature and kind as those allowed by a currently effective order of the commission in the utility's most recent rate proceeding. The following tables present the items that comprise the difference between the interim and final rate base and operating income proposals. As discussed below, none of the adjustments result from the fact that the costs are not the same in nature and kind as those allowed by a currently effective order. Except for the TCR roll-in, the changes are essentially corrections to the main rate case that due to timing issues Xcel was not able to incorporate in the main case.

Rate Base Adjustments from Rate Case to Interim		
	2016	2017
TCR Roll-in Removal	\$ (380,342)	\$ (367,411)
Monticello Dry Cask to CWIP	\$ 3,823	\$ 8,647
MN Remaining Life Study Removal	\$ 2,896	\$ 8,727
Accumulated Def Income Tax pro-rate Adj	\$ (7,014)	\$ 63
Net Operating Loss Adjustment	\$ (10,618)	\$ 3,466
Cash Working Capital	\$ 7,450	\$ 7,489
Remove 2017 Rate Base Escalation	-	\$ (6,847)
Total	\$ (383,805)	\$ (345,866)

Operating Income Adjustments from Rate Case to Interim		
	2016	2017
TCR Roll-in Removal	\$ (28,016)	\$ (26,968)
Monticello Dry Cask to CWIP	\$ 752	\$ 1,623
MN Remaining Life Study Removal	\$ 4,930	\$ 5,109
Remove Incremental PI Payments	\$ 616	\$ 616
Accumulated Def Income Tax pro-rate Adj	\$ (65)	\$ 1
Net Operating Loss Adjustment	\$ (70)	\$ (3,028)
Cash Working Capital	\$ 69	\$ 70
Remove 2017 Incremental Revenue & Expense	-	\$ 7,847
Total	\$ (21,784)	\$ (14,730)

As shown, the items that make up the difference are the same for both rate base and operating income for both years except for the 2017 incremental revenue and expense removal.

Transmission Cost Recovery (TCR) Rider Project Roll-In Removal

Xcel is proposing to roll-in the plant costs, revenues and expenses for the CapX2020 Brookings and CapX2020 Fargo lines into final rates in this case and has included them in the test year. The costs of these two projects are currently being recovered in the Transmission Cost Recovery Rider (TCR). The Company is proposing to continue to recover the costs in the TCR rider during the rate case. Therefore for interim rates, the costs are being removed from rate base and operating income. By rolling-in the costs in this manner, the requested interim rate increase is lower. In theory, if the costs had been included in interim rates and the TCR rider rate was also reduced effective January 1, 2016, the net increase to ratepayers would be zero. In reality, because the rates of return used for interim rates and in the rider are different, the actual change would not be a net of zero. Furthermore, it seems unlikely that ratepayers would understand that the net change is approximately zero. Because the TCR is included with other rider surcharges as single line item on the bill, it would not be readily apparent that the TCR decreased. Staff believes that addressing the roll-in in this manner will cause less confusion for the ratepayers. However, the time period used to establish the rate base and revenues and expenses for the roll-in at the end of the rate case needs to be established and agreed to prior to that time.

Monticello Dry Fuel Storage Project

According to Xcel, the Monticello Dry Fuel Storage project was originally scheduled to go in service during the 2016 test year. The project in-service timing has subsequently been moved to 2018. This was not known when the main rate case was put together, so the adjustment was not made in the rate case. The interim rate revenue requirement is being adjusted to shift the costs originally projected to go in service in 2016 back into construction work in process for 2016 and 2017 so the correction is reflected in the amount of the interim rate request. The change should be reflected in the main rate case when financial schedules are updated.

Minnesota Remaining Life Study

On October 22, 2015, the Commission approved the remaining lives for 2016 with certain adjustments as recommended by the Department of Commerce. The main rate case included the remaining lives as originally proposed by the Company. The adjustment for interim rate purposes incorporates the modifications to the initial filing approved by the Commission. The change should be reflected in the main rate case when financial schedules are updated.

Accumulated Deferred Income Tax (ADIT) Pro-Rate

The Company has included the impacts on the change in the ADIT pro-rate calculation in determining the final revenue requirement. The Company has determined ADIT balances are required to be pro-rated in accordance with IRS Section 1.167(l)-(1)(h)(6) for forward looking test years so an adjustment was included in the general rate petition. This interim rate base

adjustment records the change in the ADIT pro-rate between the level calculated in determining the final revenue requirement and the interim cost of service.

Net Operating Loss Adjustment

This adjustment reflects that change in deferred income taxes from the main rate case resulting from other interim rate adjustments that affect net income.

Cash Working Capital

This adjustment reflects the change in cash working capital resulting from other interim rate adjustments.

Removal of 2017 Non-Plant Rate Base Escalation and 2017 Escalated Operating Revenues and Expenses

Xcel stated that the 2017 Plan Year filed in this proceeding included increases in certain non-plant related rate base components over the 2016 levels and forecasted or escalated changes in certain revenue and expense accounts in the income statement. The adjustments in the 2017 Interim Rate petition removes the changes back to the 2016 levels as the Company is only requesting increases in plant related capital and their associated costs as was done for the 2015 step in the 13-868 rate case.

According to the Company,²³ it took a conservative approach with its 2017 interim rate request. Specifically, the request only reflects its incremental capital and capital related O&M expenses. It did not request other O&M expenses. According to the Company, this makes its approach consistent with the MYRP Order. It also recognizes that the Commission has not previously approved recovery of non-capital O&M expenses in the second year of a MYRP even though the Company believes the 2017 O&M expenses are the same nature and kind as the expenses it will incur in 2016.

Incremental Prairie Island Tribal Payments

The Company proposed to include in final rates the incremental costs associated with an amendment to the 2003 Settlement Agreement between the Company and the Prairie Island Indian Community. The Company is requesting approval of the updated agreement under Docket E002/M-15-922 that was filed on October 15, 2015. Since the approval of the agreement is still pending before the Commission, the interim rate revenue requirement has been adjusted to remove the incremental annual payment amount.

²³ Chandarana Direct p. 69

OAG Comments

The OAG stated that Xcel's current request relies on an incorrect interpretation of Minnesota Statute § 216B.16, subdivision 19 ("MYRP Statute") to argue that it is entitled to an interim rate increase in 2017. The Commission should reject Xcel's request for an interim rate increase in 2017, and consider whether exigent circumstances exist to reduce Xcel's requested \$163.7 million interim rate request.

According to the OAG, Xcel is not entitled to a second year interim rate increase. The OAG argued that the MYRP Statute does not entitle the company to an interim rate increase in 2017. While the MYRP Statute authorizes the Commission to grant interim rates for the first and second year of a company's MYRP, it does not support Xcel's claim that a utility's interim rates should increase automatically during a rate case.

The Interim Rate Statute provides that, in the absence of exigent circumstances, "the interim rate schedule shall be calculated using the proposed test year cost of capital, rate base, and expenses . . ." Therefore, unless the Commission finds exigent circumstances, the MYRP directs that interim rates be based only on the company's test year financials. Since the company has selected 2016 as the test year for its MYRP, the interim rates that Xcel receives throughout the rate case should be based on the company's 2016 test-year financials.

The OAG stated that granting a second-year interim-rate increase is against the public interest. Past experience has demonstrated that Xcel's rate case projections are woefully inaccurate, even when the company is projecting costs for the upcoming year. Xcel's proposed 2017 interim rates are based on the company's projected costs that are more than a year away and are estimated by applying inflation indices to current costs. Xcel's most recent rate case demonstrated that the company is unable to accurately project even its capital spending in the future.

Xcel has consistently and substantially overstated its need for rate increases during the past decade, resulting in considerable over-collection of interim rates as shown below.

(\$ in Millions)				
Docket No.	Initial Requested Increase	Approved Interim Rate Increase	PUC-Approved Increase	Difference Between Interim and Approved
G-008/GR-13-868 (2015 year)	\$291	\$ 127	\$ 165 ²⁴	(\$38)
G-008/GR-13-868 (2014 year)	\$ 193	\$ 127	\$ 59 ²⁵	\$68
E002/GR-12-961	\$ 285	\$ 251	\$ 103	\$148
E002/GR-10-971	\$ 198	\$ 123	\$ 72	\$51
E002/GR-08-1065	\$ 156	\$ 132	\$ 91	\$41
Total ²⁶	\$930	\$760	\$431	\$270

Over the last seven years Xcel has requested approximately half a billion dollars more in annual rate increases than it has received following the Commission's review, and Xcel has over-collected interim rates of approximately \$270 million.²⁷

In its last rate case, Xcel demonstrated that the company is not able to accurately forecast even its future capital costs. While Xcel claimed in that case that the company was in the peak of its investment cycle, the Company now claims a revenue deficiency of \$194.6 million for 2016—over \$76 million more than it claimed it would need in 2015. Based on this history, it is unreasonable to reward the company today by granting it an interim rate increase in 2017.

²⁴ PUC Staff Note: The correct number is approximately \$149.4 million. Please see Schedule 1A (pp. 2 & 3 of 3) of Xcel's September 2, 2015 Final Rates Compliance filing (Docket 13-868) and the Commission's October 30, 2015 Order Approving Compliance Filing (Docket 13-868).

²⁵ PUC Staff Note: The correct number is approximately \$55.5 million. Please see Schedule 1A (pp. 1 & 3 of 3) of Xcel's September 2, 2015 Final Rates Compliance filing (Docket 13-868) and the Commission's October 30, 2015 Order Approving Compliance Filing (Docket 13-868).

²⁶ Per the OAG, since the 2015 year includes the requested and approved increases for 2014 and 2015, the 2014 increases are not included in the "total" for these columns in order to ensure that these 2014 increases are not "double counted." The 2014 increase is needed in the table, however, to accurately compare the interim rates that Xcel received throughout each rate case against the final rates that were granted for each applicable year.

²⁷ PUC Staff Note: OAG's estimate of \$270 million is based on annualized numbers. Because Xcel's interim rates are typically in effect for longer than twelve months at a time, this estimate potentially underestimates the amount of over-collected interim rates.

Xcel Reply

Xcel stated that the OAG's recommendation should be rejected. First, the OAG misreads the MYRP Statute when it contends that no increase to interim rates is allowed in the second year of a MYRP. To the contrary, the MYRP Statute, as amended in 2015, explicitly provides for second year interim rates.

By its plain language, the amended MYRP Statute makes clear that a utility proposing a MYRP may request interim rates for both the first and the second years of the plan, and that the methodology to be used in setting those rates is that set forth in the Interim Rate Statute.

The OAG's argument fails to read the MYRP Statute and Interim Rate Statute together, giving both meaning, as is required. The Interim Rate Statute alone would allow for interim rates to continue at the test year level during the second year of a MYRP – the result argued for by the OAG. Under the OAG's reasoning, the MYRP Statute's provisions on interim rates would serve no purpose.

The OAG also relies on an incorrect interpretation of a "test year" when it seeks to limit interim rates to 2016 levels. The OAG's interpretation is inconsistent with the MYRP Statute, the Interim Rate Statute and the Commission's Rules. The Commission has defined a "test year" as "the period of 12 consecutive months used for evaluating a need for a change in rates."²⁸ The Company stated that as part of its MYRP in this case, it has proposed three periods of 12 consecutive months to evaluate the need for a change in rates: calendar years 2016, 2017, and 2018. This is consistent with the MYRP Statute, which provides for "a plan establishing the rates the utility may charge for each year of the specified period of years," and the Interim Rate Statute, which requires that interim rates be set based on the "proposed test year."

Further, the Commission anticipated the ability to adjust interim rates during an MYRP in its MYRP Order. The MYRP Order demonstrates that the Commission had authority to approve second year interim rates even prior to the 2015 MYRP Statute amendments.

The Minnesota Supreme Court has stated, "the purpose of the interim rate period is to prevent the 'potentially confiscatory effect of regulatory delay,'" and the "thrust of the statute is a balancing of interests." The Company's interim rate request accomplishes this. This case is expected to take at least 16 months to process which means that the earliest final rates may be set will be in the second quarter of 2017. Because the Interim Rate Statute prohibits the surcharge of undercollected revenues until after the Commission's final determination, adjusting interim rates in 2017 mitigates the potentially confiscatory effects of regulatory delay.

Finally, Xcel argued that no exigent circumstances exist that would warrant any adjustment to the Company's 2016 interim rate request. The existence of past refunds does not equate to "exigent circumstances" that would justify veering from the statutory formula for calculating interim rates.

²⁸ Minn. Rule 7825.2400, Subp. 18 under Automatic Adjustment of Charges

OAG Response Comments

The OAG stated its brief comments are necessary to address Xcel's new position-or at least the position it stated for the first time-that its 2017 and 2018 "plan years" should be treated as "test years" so that the company may receive an interim rate increase in 2017.

First, Xcel's claim that its 2017 plan year is consistent with the Commission's definition of "test year" is wrong. The Commission has defined a test year as "the 12-month period selected by the utility for the purpose of expressing its need for a change in rates."²⁹ Xcel argues that, since its 2017 plan year expresses a requested change in rates from its proposed 2016 test year, 2017 also constitutes a test year. Nothing in the Commission's rules, however, suggests that a utility's "change in rates" included in the definition of "test year," can refer to a change from the company's proposed rates in one year to proposed rates in a subsequent year. Rather, the Commission's rules consistently refer to a "change in rates" as a proposed change from the utility's Commission-approved rates at the time a rate case is filed. For example, Minnesota Rule 7825.3200 requires that "[a] utility filing for a change in rates shall serve notice to the commission at least 90 days prior to the proposed effective date of the modified rates." Other Commission rules also refer to a "change in rates" as a change from a utility's existing, Commission approved rates. The definition of a "test year," therefore, refers to the 12-month period used to evaluate a need of a change from the utility's Commission-approved rates. For this reason, Xcel's current claim that it can have three test years in a single rate case is incorrect.

Second, Xcel's argument that the OAG "fails to read the MYRP Statute and the Interim Rate Statute together, giving both meaning" is misplaced because it fails to consider the Commission's previous MYRP Order. Specifically, Xcel argues that, since "[t]he Interim Rate Statute alone would allow for interim rates to continue at the test year level during the second year of the MYRP," the MYRP Statute cannot be read to authorize interim rates in the same manner. Xcel ignores, however, that the Commission's MYRP Order considered that interim rates during an MYRP may not be based on a utility's test year, stating that "[i]t is presumed that interim rates will be calculated based upon the rate case test year unless it is demonstrated to be reasonable to do otherwise." It makes perfect sense that the subsequent amendment to the MYRP Statute clarified that interim rates would be set in the same manner as they are set in the Interim Rate Statute-with reference to the test year. In fact, it is Xcel's contrary claim that the amendment to the MYRP Statute simply "made explicit" the authority that the Commission had already claimed, which renders the amendment meaningless.

²⁹ Minn. Rule 7825.3100, Subp. 17 under Rate Changes

PUC Staff Analysis

The two statutes referenced by the OAG are shown below in relevant part.

Minn. Stat § 216B.16, Subd. 3. Rate Change; Procedure; Hearing. Interim rate.

(b) Unless the commission finds that exigent circumstances exist, the interim rate schedule shall be calculated using the proposed test year cost of capital, rate base, and expenses, except that it shall include: (1) a rate of return on common equity for the utility equal to that authorized by the commission in the utility's most recent rate proceeding; (2) rate base or expense items the same in nature and kind as those allowed by a currently effective order of the commission in the utility's most recent rate proceeding; and (3) no change in the existing rate design. In the case of a utility which has not been subject to a prior commission determination, the commission shall base the interim rate schedule on its most recent determination concerning a similar utility.

Minn. Stat. § 216B.16, Subd. 19. Multiyear Rate Plan.

(b) A utility that has filed a petition with the commission to approve a multiyear rate plan may request to be allowed to implement interim rates for the first and second years of the multiyear plan. If the commission approves the request, interim rates shall be implemented in the same manner as allowed under subdivision 3.

Staff believes the following are some factors the Commission may wish to consider in evaluating Xcel's request for an interim rate increase for 2017, the second year of the proposed MYRP.

The normal time period for a rate case is ten months. If a MYRP is filed, an additional 90 days is added to the time. But for the fact that multiple rate cases have been filed, the final order in this case would have been due in 13 months, or December 2, 2016. In that case, there would be no need for interim rates in the second year.

Minn. Stat. § 216B.16, Subd. 19(b) states that the utility **may** request interim rates for the second year. It further states "If the commission approves the request." The Commission is not required to approve Xcel's request for an interim increase in 2017. This would be optional unlike interim rates for the first year.

Based on the OAG's table (reproduced above), the most Xcel has received in final rates starting with the 08-1065 rate case is 58.3 percent of its request. The average amount granted for the rate cases listed is 46.3 percent of the request. If Xcel were to receive 66 percent of its 2017 request of \$246,667,000, the increase granted (revenue deficiency) for 2017 would be \$162,800,000. The requested interim rate increase for 2016 is \$163,670,000. In that circumstance, the existing interim rate would exceed the revenue deficiency so there would be no need to increase the interim rates for 2017.

Minn. Stat. § 216B.16, Subd. 3 (the interim rate statute) was not revised when Minn. Stat. § 216B.16, Subd. 19 (the MYRP statute) was enacted nor when it was revised. The MYRP statute provides the Commission the option of allowing a second year interim rate increase. Therefore, Staff believes the Commission can determine how the provisions of the interim rate statute are applied to a MYRP.

The OAG argued that the definition of a test year in the rules³⁰ requires a change in rates. According to the OAG a change in rates is a change from the current Commission approved rates to the Company's proposed rates. A change from proposed rates in year 1 to proposed rates in year 2 would result in the 12 month period for year 2 not being a test year because that would not incorporate a change in rates.

However, the rules related to rate cases have been in place for many years and have not been revised to account for statutory changes such as the MYRP. The Commission has the discretion to determine whether a change from the company's proposed rates in one year to proposed rates in a subsequent year are a "change in rates." If the Commission were to reach that conclusion then the year after the initial year in a MYRP could be considered a test year under Minn. Rule 7825.3100, Subp. 17.

The final order in this rate case must be issued by March 1, 2017. (If the Commission accepts Xcel's filing as being substantially complete as of November 2, 2015). Based on the Commission's Order in Xcel's last rate case, 13-868, that would be the date the rates established for 2017 would be effective. In the 13-868 case, any recovery of the interim rate deficiency for the step year (2015) was only allowed after the effective date of the 2015 rates. Any deficiency related to the interim rates collected in January and February, 2015 was not allowed to be recovered. The Company is proposing that the 2017 interim increase be effective January 1, 2017, which is two months before the 2017 rates would be effective. Because the issue of whether the effective date of the rates in the second year of a MYRP may or should be effective January 1st has not been litigated nor resolved (along with several other MYRP implementation issues, for example, the passage of time adjustments in the step year, what is the date of the Commission's final determination in a multiyear rate plan, etc.), the Commission may not want to make an advance determination that allows an increase for 2017 effective on January 1.

Interim Cost of Capital

Minn. Stat. § 216B.16, Subd. 3(b) reads:

Unless the commission finds that exigent circumstances exist, the interim rate schedule shall be calculated using the proposed test year cost of capital, rate base, and expenses, except that it shall include: (1) a rate of return on common equity for the utility equal to that authorized by the commission in the utility's most recent rate proceeding; ...

³⁰ Minn. Rule 7825.3100, Subp. 17

The Company is proposing an interim cost of capital of 7.34% based on the following representing the proposed capital structure and cost of debt with the cost of equity approved in the last rate case:

Component	Percent of Total	Cost Rate	Weighted Cost
Long-Term Debt	46.24%	4.81%	2.22%
Short-Term Debt	1.26%	1.84%	0.02%
Common Equity	52.50%	9.72%	5.10%
Total (ROR)			7.34%

The Company's proposed cost of capital for interim rates follows the statutorily prescribed interim cost of capital.

Interim Rate Design

To collect the proposed interim revenue deficiency of approximately \$163,534,000, Xcel proposed a 7.75 percent increase on base revenues for the 2016 interim period. For the 2017 interim period, the Company proposed a 9.88 percent increase on base revenues to collect the proposed interim revenue deficiency of approximately \$208,480,000.³¹ The Company proposed to apply the respective percentage increase as a uniform increase to all base rate components of customers' bills (exclusive of fuel costs and certain rate riders).³²

With respect to interim customer bills, the Commission's Policy Statement on Interim Rates suggests that changes in interim rates be shown on customer bills as a separate line item "if practical." Xcel explained that the interim rate amount will be shown as a separate line item stated as "Interim Rate Adjustment," and will reflect the total amount of the interim change applied to the bill.

³¹ If the Company's proposed interim revenue increase were applied to total retail revenue the percentage increases would be 5.5% and 7.01% for 2016 and 2017, respectively. Xcel explained the difference between the proposed percent interim rate adjustments to base revenue and the proposed increases over total revenue in its interim rate petition and in schedules to its petition. In short, because the interim rate adjustments will not apply to certain rate riders and charges, higher interim rate percent increases are required to collect the interim revenue deficiency.

³² The base rate elements, to which the percentage increases would be applied, are listed in Xcel's Interim Rate Surcharge Rider (Section No. 5, 11th Revised Sheet No. 94) in the Company's interim rate petition.

The table below summarizes Xcel's proposed interim rate design.

Xcel Energy's Proposed Interim Revenue Apportionment						
	Number of Customers	Sales (GWh)	Revenues (\$000s)		Increase	
			Current	Proposed	(\$000s)	%
2016						
Residential	1,131,309	5,373	\$814,494	\$877,617	\$63,123	7.75%
C&I Non-Demand	85,885	617	\$81,500	\$87,817	\$6,317	7.75%
C&I Demand	48,189	13,499	\$1,191,335	\$1,283,663	\$92,328	7.75%
Lighting	2,249	130	\$22,790	\$24,556	\$1,766	7.75%
Total	1,267,632	19,619	\$2,110,119	\$2,273,653	\$163,534	7.75%
2017						
Residential	1,131,309	5,373	\$814,494	\$894,966	\$80,472	9.88%
C&I Non-Demand	85,885	617	\$81,500	\$89,552	\$8,052	9.88%
C&I Demand	48,189	13,499	\$1,191,335	\$1,309,039	\$117,704	9.88%
Lighting	2,249	130	\$22,790	\$25,041	\$2,251	9.88%
Total	1,267,632	19,619	\$2,110,119	\$2,318,599	\$208,480	9.88%

Source: Interim Rate Petition, November 2, 2015, Schedule 2, pages 3-4.

PUC Staff Comment

Staff recommends approval of Xcel's interim rate design methodology—i.e. applying an across-the-board increase to all customer classes—because it fulfills the “no change in existing rate design” direction contained in Minn. Stat. §216B.16, subd. 3, and it is consistent with the Commission's Statement of Policy on Interim Rates, which states that “...interim rates should consist of the existing rate schedules with an interim rate adjustment equal to the overall requested interim increase percentage.”³³

Staff also recommends the Commission make its decision on the design of interim rates consistent with its decision on whether to authorize a step increase in the level of interim rates for the 2017 plan year or to modify the proposed increase for the 2016 test year. If the step increase is authorized, the Commission may also want to consider deferring its decision on the effective date of the interim step increase until it makes its “final determination” at the end of this rate case when it takes up the merits of Xcel's proposed multi-year rate plan.

Other Interim Items

Methods and procedures for refunding: Pursuant to Minn. Stat. §216B.16, subd. 3, Xcel has provided a written statement indicating its “Agreement and Undertaking” to make appropriate refunds if required. This document is in Volume 1, Notice of Change in Rates, Interim Rate Petition, Agreement and Undertaking.

³³ Minnesota Public Utilities Commission, Statement of Policy on Interim Rates, April 14, 1982, at page 1.

As part of this Agreement and Undertaking, Xcel makes an unqualified agreement concerning the refund of any portion of the requested increase in rates determined by the Commission to be unreasonable. The Company states:

Pursuant to Minn. R. 7825.3300, Xcel Energy hereby agrees and undertakes to refund to its customers the amount, if any, collected during the interim rate period, plus interest at the current rate as determined by the Commission, computed from the effective date of the interim rates through the date of refund. The refund shall be made in accordance with Minn. Stat §216B.16, subd. 3, and in a manner approved by the Commission.

However, Xcel also notes that

it is proposing a MYRP which will cover a three year period. This may cause complexities in matching rates to the right time period. We do not believe timing will be an issue, given the experience gained with refunding interim rates as part of our most recent electric rate case which also presented a multi-year rate request. For that reason, we are proposing to use the refund methods we used in that prior electric rate case. If we seek to modify our interim rates, we will revise our refund proposal, as appropriate, at that time.³⁴

Customer notice: Pursuant to Minnesota Rules, Part 7829.2400, subp. 3, and Minn. Stat. §216B.16, subd. 3, Xcel proposed to send a notice to its retail electric customers and to the counties and municipalities it serves in Minnesota. In addition, Xcel will publish a display advertisement in newspapers of general circulation in all county seats in its Minnesota electric service territory. The proposed notice to customers, counties and municipalities, along with a mailing list of affected governing bodies, is included in Volume 1, Notice of Change in Rates, Interim Rate Petition, Interim Rate Petition. Staff will work with the Company to finalize these notices prior to issuance.

Public Hearing Locations

The scheduling of the public hearings is typically discussed and decided around the time of the pre-hearing conference by the Administrative Law Judge (ALJ) in consultation with the Company, parties, and the Commission. A formal Commission decision on this matter is not needed for the purpose of issuing the Commission's orders; however, some direction from the Commission on the appropriate number and location of public hearings to recommend to the ALJ would be welcome.

Based upon e-filed sign-in sheets and hearing transcripts, in Xcel's 2013 rate case, the public hearing attendance was as follows. (Approximately twice as many people attended the hearings in the 2013 case as in the 2012 case, and approximately three times as many people provided oral comments at the hearings in the 2013 case compared to the 2012 case.)

³⁴ Xcel, Notice and Petition for Interim Rates, p. 11, this docket

Location/Time – 2013 Rate Case	Public Attendance	Public Oral Comments
Minneapolis 1:00 PM @ Earle Brown Heritage Center	31	18
Minneapolis 7:00 PM @ Sabathani Center	48	24
St. Paul 1:00 PM @ West Minnehaha Rec Center	31	14
Woodbury 7:00 PM @ Woodbury Central Park	34	10
Eden Prairie 7:00 PM @ Eden Prairie City Center	29	13
St. Cloud 1:00 PM @ Lake George Municipal Complex	42	12
Mankato 7:00 PM @ Civic Center	35	14
Total	250	105

In the interest of developing a framework for public hearings in this proceeding, staff's recommendation would be for the ALJ to conduct public hearings similar in schedule and number as was done in the Company's 2013 rate case.

Administrative and Compliance Issues

The Commission's practice in most rate cases has been to require: a) notice to municipalities and counties of the proposed rate change, b) public hearings at locations within the company's service area, and c) notice of evidentiary and public hearings.

The decision alternatives contain ordering language that is similar to the language used in notice and orders for hearing in previous general rate proceedings, e.g. Great Plains' 2002 rate case.³⁵ Staff recommends that this language be incorporated into the Commission's decisions in this docket. General rate case notice requirements can be found in Minn. Stat. § 216B.16, subd. 1, and Minn. Rules, Part 7829.2400, subparts 3 and 7.³⁶

The Commission's practice has also been to require interim rate compliance filings. These filings typically include tariff sheets with supporting documents, and a Commission-approved

³⁵ *Notice and Order for Hearing*, In the Matter of a Petition by Great Plains Natural Gas Company, a Division of MDU Resources Group, Inc., for Authority to Increase Natural Gas Rates in Minnesota, Docket No. G-004/GR-02-1682, November 19, 2002 (please see Ordering Paragraphs 3, 4 and 5)

³⁶ Staff also recommends the Commission require Xcel to send a copy of the Commission's notice and order for hearing to all local governing bodies in its service area. This notification will ensure that these entities can make an appearance at the prehearing conference or make arrangements to intervene in this case if they are interested.. This notification is in addition to the notice required by Minn. Stat. § 216B.16, Subd. 1, and Minn. Rule 7829.2400, subp. 3, and is consistent with past Commission practice.

notice to customers of the interim rate increase. Companies are also required to keep records of their sales and collections to support any potential interim rate refund obligation. The decision alternatives contain language typical of the language used in previous Commission Orders authorizing interim rates.

Staff recommends the Commission require all of the administrative and compliance related items listed in the decision alternatives. Customer notices are generally administrative items that are negotiated between Commission staff and the utility, and authority to approve notices is usually delegated to the Commission's Executive Secretary for the duration of the proceeding. Staff recommends continuing that practice here.

Decision Alternatives

1. Acceptance

- a. Accept this filing as being in proper form and substantially complete as of November 2, 2015 (Xcel), or
- b. Accept this filing as being in proper form and substantially complete as of November 10, 2015 (DOC), or
- c. Reject this filing as not being in proper form and/or not being substantially complete.

If this filing is accepted as being in proper form and substantially complete as of a certain date, then the Commission should also decide the following:

2. Suspension of Proposed Final Rates

Suspend the proposed final rates until the Commission makes its final determination in this matter, and

- a. Find the Commission has insufficient time to make a final determination if the rates are suspended for a ten-month suspension period because of the need to make a final determination in other pending cases involving changes in general rates and because of Xcel's proposal for a multiyear rate plan. Find that the rates in this case should be suspended for an additional one-hundred-and-eighty days, pursuant to Minn. Stat. § 216B.16, subds. 2(a),³⁷ 2(f)³⁸ and 19(d),³⁹ until March 1, 2017, (Xcel) or

³⁷ Minn. Stat. §216B.16, subd. 2(a). Whenever there is filed with the commission a schedule modifying or resulting in a change in any rates then in force as provided in subdivision 1, the commission may suspend the operation of the schedule by filing with the schedule of rates and delivering to the affected utility a statement in writing of its reasons for the suspension at any time before the rates become effective. The suspension shall not be for a longer period than ten months beyond the initial filing date except as provided in this subdivision or subdivision 1a.

³⁸ Minn. Stat. §216B.16, subd. 2(f). If the commission finds that it has insufficient time during the suspension period to make a final determination of a case involving changes in general rates because of the need to make a final determination of any pending case involving changes in general rates under this section or section 237.075, the commission may extend the suspension period to allow up to a total of 90 additional calendar days to make the final

- b. Find the Commission has insufficient time to make a final determination if the rates are suspended for a ten-month suspension period because of the need to make a final determination in other pending cases involving changes in general rates and because of Xcel's proposal for a multiyear rate plan. If this case is accepted as of November 10, 2015, find that the rates in this case should be suspended for an additional one-hundred-and-eighty days, pursuant to Minn. Stat. § 216B.16, subds. 2(a), 2(f) and 19(d), until Monday, March 13, 2017. (DOC)
- c. Do not make the finding in 2(a) above and allow this case to proceed on a ten-month (or thirteen-month, pursuant to the MYRP statute) timeline.

3. Referral of this Matter to the Office of Administrative Hearings for a Contested Case Proceeding

- a. Refer this matter to the Office of Administrative Hearings for a contested case proceeding. Request the ALJ's report on or before November 15, 2016 if the Commission adopts alternative 2(a) above. If the deadline for the Commission's decision is extended beyond ten months plus one-hundred-and-eighty days at any point during this proceeding for any reason (e.g. settlement discussions, waiver, etc.) request the ALJ's report at least three-and-a-half months before the extended deadline for the Commission's decision. or
- b. Refer this matter to the Office of Administrative Hearings for a contested case proceeding. Request the ALJ's report on or before November 23, 2016 if the Commission adopts alternative 2(b) above. If the deadline for the Commission's decision is extended beyond ten months plus one-hundred-and-eighty days at any point during this proceeding for any reason (e.g. settlement discussions, waiver, etc.) request the ALJ's report at least three-and-a-half months before the extended deadline for the Commission's decision.
- c. Refer this matter to the Office of Administrative Hearings for a contested case proceeding. Request the ALJ's report within eight months of the date of the Commission's acceptance of this filing, i.e. on or before July 1, 2016, if the Commission adopts alternative 2(c) above. If the statutory deadline for the Commission's decision is extended beyond the normal ten months at any point during this proceeding for any reason (e.g. settlement discussions, waiver, etc.) request the ALJ's report at least two months before the extended deadline for the Commission's decision. and
- d. Identification of issues requiring development of a complete record in this case.

determination. An extension of the suspension period under this paragraph does not alter the setting of interim rates under subdivision 3.

³⁹ Minn. Stat. §216B.16, subd. 19(d). In reviewing a multiyear rate plan proposed in a general rate case under this section, the commission may extend the time requirements for issuance of a final determination prescribed in this section by an additional 90 days beyond its existing authority under subdivision 2, paragraph (f).

- i. The standard rate case issues,⁴⁰ and
- ii. Request parties to thoroughly review and develop a full record on the following:
 1. Review of issues from past Commission Orders,
 2. Xcel's proposed a five-year alternative plan, as discussed in page 35 of these briefing papers.
 3. Inclusion of all non-decoupled classes in Xcel's revenue decoupling pilot program, as discussed in page 35 of these briefing papers.
 4. Handling of investment tax credits, as discussed in page 35 of these briefing papers.
 5. Any other issue as identified by the Commission.

4. Effective Date of Interim Rates

If Xcel's case is accepted as being in proper form and substantially complete as of November 2, 2015, i.e. alternative 1(a), or November 10, 2015, i.e. alternative 1 (b), and proposed final rates are suspended, i.e. alternative 2(A) or 2(B), the Commission is required to set interim rates as of a certain effective date.

- a. Authorize Xcel to implement interim rates for service rendered on and after Friday, January 1, 2016 (sixty days after Xcel's November 2, 2015 initial filing date).
- b. Authorize Xcel to implement interim rates for service rendered on and after Monday, January 4, 2016 (the Monday after the sixty day deadline following Xcel's November 2, 2015 initial filing date).
- c. Authorize Xcel to implement interim rates for service rendered on and after January 9, 2016 (sixty days after Xcel submitted on November 10, 2015 its Revised, Supplemental Information which made Xcel's petition substantially complete).
- d. Authorize Xcel to implement interim rates for service rendered on and after Monday, January 11 2016 (the Monday after the sixty day deadline after Xcel submitted on November 10, 2015 its Revised, Supplemental Information –which made Xcel's petition substantially complete).

⁴⁰ The standard rate case issues are: 1) Is the test year revenue increase sought by the Company reasonable or will it result in unreasonable and excessive earnings by the Company? 2) Is the rate design proposed by the Company reasonable? and 3) Are the Company's proposed capital structure and return on equity reasonable? *Notice and Order for Hearing*, In the Matter of the Application of Minnegasco, a Division of NorAm Energy Company, for Authority to Increase Natural Gas Rates in Minnesota, Docket No. G-008/GR-95-700, p. 3, October 4, 1995

5. Interim Rates (Capital Structure & Cost of Capital)

- a. Approve Xcel's proposed interim cost of capital for setting interim rates,⁴¹ or
- b. Determine that exigent circumstances exist adopt some other cost of capital structure and component costs for setting interim rates.

6. Interim Rates (Financial Matters)

- a. 2016 Interim Rates
 - i. Approve Xcel's proposed interim rate increase of \$163,670,000, a 5.5 percent increase above interim present revenues. (Xcel)
 - ii. Determine that exigent circumstances exist and that the interim rate increase should be an amount determined by the Commission that is less than Xcel's requested increase. (OAG)
 - iii. Determine Xcel's current rates set in the 13-868 rate case will be the interim rates for this rate case.
- b. 2017 Interim Rates
 - i. Approve Xcel's proposed incremental interim increase of \$44,900,000 for a total interim rate of \$208,570,000, a 7.0 percent increase above interim present revenues effective for service rendered on and after January 1, 2017. (Xcel)
 - ii. Approve Xcel's proposed incremental interim increase of \$44,900,000 for a total interim rate of \$208,570,000, a 7.0 percent increase above interim present revenues effective for service rendered on and after the date of the Commission's final determination⁴² in this matter. (Approximately March 1, 2017 if the Commission accepts Xcel's case as being substantially complete as of November 2, 2015, or March 13, 2017 if the Commission accepts Xcel's case as being substantially complete as of November 10, 2015.)
 - iii. Determine that no incremental increase will be allowed and the 2016 increase will continue for 2017 and until the Commission makes its final determination.⁴³ (The interim rates would continue at \$163,670,000) (OAG)
 - iv. Determine Xcel's current rates set in the 13-868 rate case will continue to be the interim rates for this rate case.

⁴¹ Xcel proposed a rate of return on common equity of 9.72 percent and an overall rate of return of 7.34 percent for the calculation of interim rates.

⁴² Minn. Stat. § 216B.16, Subd. 2(g). Final determination defined. "For the purposes of this section, "final determination" means the initial decision of the commission and not any order which may be entered by the commission in response to a petition for rehearing or other further relief. The commission may further suspend rates until it determines all those petitions."

⁴³ Ibid.

c. Test Year

- i. Determine that years subsequent to the first year of a MYRP are test years for the purpose of Minn. Rule 7825.3100, Subp. 17 as applied to interim rates. (Xcel)
- ii. Determine that years subsequent to the first year of a MYRP are not test years for the purpose of Minn. Rule 7825.3100, Subp. 17 as applied to interim rates. (OAG)

7. Interim Rates (Rate Design)

- a. Approve Xcel's request to collect the interim rate increase as a uniform percentage interim rate adjustment to the base rate portion of customer bills. And to display the interim rate increase on customer bills using a single, line-item interim rate adjustment.

8. Administrative & Compliance Issues

- a. In the Notice and Order for Hearing, require the following:
 - i. This Order will be served on the Company, which shall mail copies of the Order to all municipalities, counties, and local governing bodies in its Minnesota service area.
 - ii. Public Hearings shall be held in this matter at locations within the service area of the Company.
 - iii. The Company shall give the following notices of the evidentiary and public hearings:
 1. Individual written notice to each customer, which may be in the form of a bill insert, and shall be served at least ten days before the first day of hearings.
 2. Written notice to the governing bodies of all municipalities, counties, and local governing bodies in the area affected and to all parties in the Company's last two rate cases. These notices shall be mailed at least ten days before the first day of hearings.
 3. Display advertisements in legal newspapers of affected counties and other newspapers of general circulation within the Company's Minnesota service area. These advertisements shall appear at least ten days before the first day of hearings. They shall include the heading **RATE INCREASE NOTICE**, which shall appear in bold face type no smaller than 30 points.
 4. The Company shall submit proposed notices for Commission approval prior to publication or service. and

- b. In the Order Setting Interim Rate require the following:
- i. Order the Company to file with the Commission and the Department of Commerce-Division of Energy Resources interim rate tariff sheets and supporting documentation reflecting the decisions herein. The Company's filing should also include the notice to customers, approved by the Executive Secretary, regarding the rate change under the interim rate schedule.
 - ii. Order the Company to keep such records of sales and collections under interim rates as would be necessary to compute a potential refund. Any refund should be made within 120 days of the effective date of the Commission's final order in a manner approved by the Commission.
 - iii. Order the Company to include with each customer's first bill under the interim rate schedule a notice of the rate change, approved by the Executive Secretary. Upon completion of this task, the Company shall certify this fact to the Commission. and
- c. Require Xcel to maintain records of CIP costs and collection through the interim period so that it can be ascertained that recoveries dedicated to CIP are properly recorded as CIP.

9. Approval of Notices and Customer Bill Inserts

- a. Delegate authority to approve notices, bill inserts, and bill format to the Commission's Executive Secretary for the duration of this proceeding, or
- b. Do not delegate authority to the Commission's Executive Secretary.

Concluding Comment & Recommendation

If the Commission accepts this filing as substantially complete, the Commission should also suspend the proposed final rates, set this matter for contested case hearing, and request the ALJ's report and recommendation within a sufficient amount of time for the Commission to issue its order before the statutory deadline.

With respect to interim rates financial issues, the Commission will need to decide whether to approve the amount of the interim rate increase Xcel requested or find exigent circumstances and approve some other amount. With respect to interim rate design issues, staff recommends the Commission approve Xcel's proposal to apportion responsibility for the interim rate increase equally across all classes.

Staff recommends all of the administrative and compliance items listed under alternative 8(a), (b) & (c). Staff also recommends the Commission delegate to the Commission's Executive Secretary authority to approve proposed notices and customer bill inserts for the duration of this proceeding, alternative 9(a).

The public hearing schedule does not require Commission action at this time but if the Commission would like to provide guidance on this, staff will relay that information to the Administrative Law Judge.