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June 7, 2018

- Via Email and Federal Express -

Darrell Nitschke, Executive Director
North Dakota Public Service Commission
State Capitol Building, Dept 408
600 East Boulevard
Bismarck, ND 59505-0480

RE: PETITION FOR APPROVAL OF A MULTI-FACETED CUSTOMER REFUND
CASE NOS. PU-10-657, PU-12-813, PU-16-19, PU-18-112, PU-18-118 AND PU-18-188

Dear Mr. Nitschke:

Northern States Power Company, doing business as Xcel Energy, respectfully submits to the North Dakota Public Service Commission an original and 10 copies of a request for approval to issue a \$3,649,604 refund to our North Dakota electric customers comprised of the net impact of the following items:

- 1) a \$2,983,461 refund associated with above-authorized earnings in 2017,
- 2) a \$788,143 credit associated with an 8th payment from the U. S. Dept. of Energy for a partial breach of contract to take spent nuclear fuel,
- 3) a \$128,000 credit representing a majority of the gain on the sale of fuel oil inventory and storage tanks to a subsidiary of Flint Hill Resources, LLC, and
- 4) a \$250,000 charge to fund the Company's financial incentive earned in 2017 for achieving a reliability excellence threshold.

Combining these items into a single one-time customer refund avoids the need for multiple regulatory filings and billing adjustments, thereby passing the various components to customers more efficiently and timely.

Please contact me if you have any questions regarding this filing.

Sincerely,

DAVID H. SEDERQUIST
Sr. Consultant, Regulation & Finance

cc: Victor Schock
Jack Schuh

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Petition for approval to issue customer refund

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Petition for approval to issue customer refund

STATE OF NORTH DAKOTA
BEFORE THE
PUBLIC SERVICE COMMISSION

Randy Christmann	Chair
Julie Fedorchak	Commissioner
Brian Kroshus	Commissioner

PETITION

IN THE MATTER OF THE PETITION OF	Case Nos. PU-10-657
NORTHERN STATES POWER COMPANY	PU-12-813
FOR APPROVAL OF A NET REFUND	PU-16-019
RELATED TO 2017 EARNINGS, A DEPT. OF	PU-18-112
ENERGY SETTLEMENT PAYMENT, GAIN	PU-18-118
ON AN ASSET SALE, AND A 2017	PU-18-188
RELIABILITY AWARD.	

INTRODUCTION

Pursuant to ND Century Code § 49-02-03, Northern States Power Company, doing business as Xcel Energy, operating in North Dakota, petitions the North Dakota Public Service Commission (Commission) for approval of a \$3,649,604¹ net refund and one-time bill credit for the following items:

- 1) a \$2,983,461 refund associated with above-authorized earnings in 2017.
- 2) a \$788,143² credit associated with an 8th payment from the U. S. Dept. of Energy for a partial breach of contract to take spent nuclear fuel.
- 3) a \$128,000 credit representing a majority of the gain on the sale of fuel oil inventory and storage tanks to a subsidiary of Flint Hill Resources, LLC.
- 4) a \$250,000 charge to fund the Company's financial incentive earned in 2017 for achieving a reliability excellence threshold.

The Company intends to supplement this proposal during the week of June 18th with work papers showing the calculations and allocations of the final refund amount to each customer class as well as the resulting refund factors.

In support of this filing, Xcel Energy provides:

¹ Amount is preliminary; subject to change once each refund component has been finalized and approved.

² Amount does not include accumulated interest (net of bank fees) which will be added at the time the final refund amount is calculated for issuance.

- Description of the contributing elements of the refund;
- A description of the proposed refund mechanism.

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I. CONTRIBUTING ELEMENTS OF THE OVERALL NET REFUND

Xcel Energy proposes to combine the following non-recurring refund/credit items and charge into a one-time \$3,649,604 net refund to be credited to customer bills within 90 days of a Commission Order approving such a credit:

Item	Credit
2017 Earnings Share	\$2,983,461
2017 DOE Nuclear Fuel Payment	\$788,143
2017 Gain on Asset Sale	\$128,000
2017 Reliability Award Recovery	(\$250,000)
Net Credit	\$3,649,604

Combining the various items into a single billing credit offers a number of benefits:

- The efficiencies of developing and administering only one billing adjustment versus multiple adjustments;
- More timely delivery of the credits to customers due to a single process for regulatory review and billing adjustment set-up;
- Reduced customer confusion resulting from the consolidation of multiple, smaller credits/charges on customer bills;
- Reduced chance of error in setting up and executing the billing adjustments; and
- Simplified refund compliance reporting.

Following is a description of the individual items comprising the overall net refund.

A. Earnings Sharing Provision of Negotiated Agreement

As part of the Negotiated Agreement filed in Case No. PU-12-813 on September 30, 2015 and revised on February 22, 2016 as the “First Revised Negotiated Agreement” and approved by the commission on March 9, 2016, the Company committed to extending the 2016 rate freeze an additional year, as shown below:

- A. *Extension of Rate Case Moratorium.* In the Rate Settlement the Company agreed to a moratorium for further rate adjustments until 2017. To provide sufficient time for the Commission to consider the Company's RTF during 2017, the Company commits to extend this rate case moratorium one additional year. To that end, the Company may not increase base rates —on an interim or permanent basis—prior to January 1, 2018. To ensure that rates remain just and reasonable during 2017, in the event that the Company's annual weather-normalized earnings exceed a 10.25 percent return on equity during 2017, the Company will refund to customers one hundred (100) percent of any weather-normalized revenue associated with the excess earnings.

On May 25, 2018 Xcel Energy submitted its 2017 electric and natural gas regulated earnings reports to the Commission. The reports indicated weather-normalized electric earnings to be 10.91 percent Return on Equity (ROE), or 66 basis points over the authorized ROE of 10.25 percent. The corresponding excess equity earnings of \$1,855,683 translates to a pre-tax revenue requirement of \$2,983,461 as shown on Attachment A. This is the amount that is to be refunded to customers per the terms of the Negotiated Agreement.

B. Dept. of Energy (DOE) Nuclear Fuel Storage Settlement Credits

In 1998, the Company filed the first of two suits against the DOE seeking to recover

damages associated with failure to provide permanent storage of spent nuclear fuel at our Prairie Island and Monticello nuclear generating plants. The first lawsuit sought damages through 2004 while a subsequent suit sought damages through 2008. The Company reached a settlement with the U.S. Government on July 7, 2011. The settlement provided a mechanism for the Company to recover its spent fuel storage damages through December 31, 2013.

On August 11, 2011, Xcel Energy submitted a petition with the Commission requesting approval of a credit mechanism for funds received from the 2011 DOE settlement (Case No. PU-11-557). As part of the conclusion of an electric rate case pending at the time (Case Nos. PU-10-657 and PU-11-055), the North Dakota jurisdictional portion of the first DOE payment was combined with an interim rate refund. Similarly, in the most recent electric rate case filed by the Company (Case No. PU-12-813), the disposition of DOE payments 2 through 5 was resolved as part of the rate case settlement agreement approved by the Commission.³

Payment Date	ND Allocation* and Credit Method	Period of Damages
1 st Payment Rec'd: Aug 1, 2011	\$4,673,813 issued with an interim rate refund (Case Nos. PU-10-657, PU-11-055, PU-11-557)	Jan 31, 1998 – Dec. 31, 2008
2 nd Payment Rec'd: Mar 15, 2012	\$878,748 used to reduce 2013 base rate increase (Case Nos. PU-11-557, PU-12-813)	Jan 1, 2009 – Dec. 31, 2010
3 rd Payment Rec'd: Oct 16, 2012	\$997,149 used to reduce 2013 base rate increase (Case Nos. PU-11-557, PU-12-813)	Jan 1, 2011 – Dec. 31, 2011
4 th Payment Rec'd: Nov. 7, 2013	\$2,060,803 used to reduce 2013 base rate increase (Case Nos. PU-11-557, PU-12-813)	Jan 1, 2012 – Dec. 31, 2012
5 th Payment Rec'd: Dec 18, 2014	\$1,742,907 used to reduce 2014 base rate increase (Case Nos. PU-11-557, PU-12-813)	Jan 1, 2013 – Dec. 31, 2013
6 th Payment Rec'd: Nov. 5, 2015	\$702,656 issued as one-time bill credit in May 2016 (Case No. PU-16-19)	Jan 1, 2014 – Dec. 31, 2014
7 th Payment Rec'd: Oct. 26, 2016	\$1,013,041 issued as one-time bill credit in Apr 2017 (Case No. PU-16-19)	Jan 1, 2015 – Dec. 31, 2015
8 th Payment Rec'd: Nov. 13, 2017	\$788,140 [pending before the NDPSC] (Case No. PU-16-19)	Jan 1, 2016 – Dec. 31, 2016

*NOTE: All amounts noted above do not include accrued interest or bank fees.

The Company and the Government reached an agreement on January 24, 2014, to extend the term of the July 11, 2011 DOE Settlement to include spent fuel storage

³ Payments 2-5 were retained by the Company to reduce the amounts of the annual base rate increases required in each of 2013 and 2014 as part of a multi-year rate plan approved by the Commission on February 26, 2014.

damages for the three-year period from 2014 through 2016.⁴ Payments 6 and 7 were each credited to customers in subsequent billing adjustments issued in 2016 and 2017, respectively.

On November 13, 2017, an 8th payment was received in the amount of \$15,180,485 for damages during the period January 1, 2016 to December 31, 2016 and the Company filed a Petition on December 8, 2017 for approval to return the North Dakota allocation of \$788,140 to our North Dakota electric customers in the form of a one-time bill credit. The Company subsequently asked staff to put the DOE credit petition on hold in anticipation of potentially using it to offset the recovery of a likely Reliability Performance Plan (RPP) award. On March 7, 2018 Xcel Energy filed a formal notification regarding its achievement of the RPP award, and in that filing it proposed netting the 8th (and 9th) DOE payment credits with the recovery of the award, which was expected to be \$1.5 million. However, on May 25, 2018 the Company informed the Commission by letter that, due to higher than expected earnings in 2017 the RPP award would be no more than \$250,000.

Thus, the 8th DOE payment has not yet been credited to customers. In the meantime, the funds from this payment remain in a separate external interest bearing account and the interest received, net of bank fees, will be included in the final amount of the credit, similar to the treatment of previous DOE payments.

C. Gain on Sale of Inver Hills Assets

On April 11, 2018, Xcel Energy filed a petition with the Commission to issue a one-time \$128,000 credit to North Dakota customers related to the gain achieved on the sale of certain assets at its Inver Hills peaking generating plant. Flint Hills Resources Pine Bend, LLC purchased three fuel oil storage tanks, associated equipment, and land along with the fuel oil inventory stored in one of the tanks for \$7.7 million. A gain of \$3.5 million was realized, along with an estimated \$1.5 million in investment-related savings over the remaining life of the assets due to a fuel supply agreement negotiated between the parties.

The North Dakota portion of the gain was \$218,000, of which the Company has requested to retain \$90,000, representing the net present value of the foregone future returns on the assets and fuel inventory. The proposal provides credits and future savings to customers while providing a financial outcome for the Company equal to what it would have been had the Company not negotiated the sale.

⁴ On December 1, 2014, the Company filed notification with the Commission of this extension and that future DOE payments would be based on the submission of damage claims and subsequent negotiations between the Company and the DOE.

D. Reliability Performance Plan (RPP) Award

As part of the Settlement Agreement in Case No. PU-10-657, approved on February 29, 2012, the Company developed and filed a reliability-focused performance-based plan which included financial incentives. The key terms of the subsequent RPP Settlement approved December 29, 2012 included:

1. A SAIDI excellence threshold of 57.0 minutes.
2. An award range from \$250,000 to \$1,500,000 for achieving the SAIDI excellence threshold. A base incentive amount of \$250,000 would be awarded in any year the Company achieved the SAIDI excellence threshold, regardless of its reported earnings for the year.
3. The base incentive would be increased one dollar for every dollar that actual reported revenues for the plan year were below authorized levels, capped at \$1,500,000.

The \$250,000 reliability award was the result of the Company's achievement in 2017 of the RPP award threshold for outage duration performance, as measured by the System Average Interruption Duration Index (SAIDI). SAIDI is a measure of the total amount of time the average customer is without power during the calendar year. Xcel Energy's normalized North Dakota SAIDI score in 2017 was 43.7 minutes, which was well under the award threshold of 57.0. The RPP's SAIDI award was designed to be a sliding scale financial incentive that ensures the award proceeds do not produce, by themselves, Company earnings in excess of the authorized level.

Recently, Xcel Energy filed its annual report of jurisdictional regulated earnings for its electric operations in North Dakota. The report indicated that in 2017 the Company achieved an actual ROE of 10.52 percent. Under the RPP, a financial award ranging from \$250,000 to \$1,500,000 was established for exceeding the SAIDI excellence threshold of 57.0 minutes. A base incentive amount of \$250,000 was to be awarded in any year the Company achieved the SAIDI threshold, regardless of its actual regulated earnings for the year. The base amount could be increased one dollar for every dollar that the Company's actual revenues for the plan year were deficient (i.e., resulting in an ROE below the authorized level). The award was capped at a maximum of \$1,500,000.

Xcel Energy did in fact achieve the award threshold in 2017 with its SAIDI result of 43.7 minutes. However, since the Company's actual ROE was 10.52 percent, or 0.27 percent higher than the authorized level of 10.25 percent, there was no revenue shortfall in 2017 and the RPP award is thus limited to the base amount of \$250,000.

Rather than recover the costs of the award through the Fuel Cost Rider, the Company proposes to net the \$250,000 award recovery against the \$3.9 million in total refunds

provided by the i) 2017 earnings sharing refund, ii) 8th DOE nuclear fuel payment, and iii) gain on the Inver Hills asset sale.

II. PROPOSED CREDIT MECHANISM

A. One-time Bill Credit

Consistent with previous non-recurring customer refunds and credits, our goal is to seek an administratively efficient and timely return of funds to our customers. Specifically, we request returning the amount of this net refund to our current North Dakota electric customers in the form of one-time bill credits based upon each active customer's electric usage during the 2017 calendar year.

We believe the one-time bill credit is consistent with Commission precedent as it has been the approved method for past rate case interim rate refunds, DOE nuclear fuel payments, and other refunds. With this approach, each component of the overall net refund would be first allocated to customer classes using an applicable allocator.⁵ For example, the class allocator used for the DOE credits would be the one used for nuclear plant investment costs, developed using a stratification process. That process resulted in an allocation factor that was 81.3% "energy-related" and 18.7% "capacity-related." The class allocator for the RPP award would likely be distribution investment. The allocators will be identified in the supplemental work papers to be filed during the week of June 18th.

Once the contributing amounts have been allocated to each customer class, a refund per kWh factor will be calculated for each customer class based on the actual kWh usage in 2017 (for all active customers). The refund factor will then be applied to each active customer's actual kWh usage during calendar year 2017 to determine the refund for each customer. Using 12-months of electric usage avoids the problems inherent with selecting a particular point in time to calculate the refund/credit (e.g. the fluctuating usage of seasonal customers).

B. Interest

An interest component, minus any bank fees or miscellaneous charges, will be added to the DOE credit for purposes of determining the final DOE credit component of the refund. The Company has placed the DOE funds received in a separate interest-bearing account to protect both customers and the Company and to ensure the funds are accurately accounted for pending the actual bill credit. The interest-bearing account earns a variable return monthly and the interest is posted daily.

⁵ The selected customer class allocator for each component of the net refund is generally derived from the Class Cost of Service Study (CCOSS) approved in our most recent rate case (Case No. PU-12-813)

There is no interest component related to the other refund components: the 2017 earnings share refund, the gain on the Inver Hills asset sale, or the RPP award recovery.

C. Bill Messaging

The Company proposes to include the following bill message during the issuance of the refund:

Residential

Your electric bill this month includes a credit representing the net 1) refund related to the Company's higher than authorized earnings in 2017, 2) a credit for funds Xcel Energy received as part of a settlement with the U. S. Dept. of Energy, 3) a portion of the gain on the sale of assets at a Company power plant, and 4) a charge to fund the Company's 2017 reliability award.

Commercial/Industrial

Your electric bill this month includes a credit representing the net 1) refund related to the Company's higher than authorized earnings in 2017, 2) a credit for funds Xcel Energy received as part of a settlement with the U. S. Dept. of Energy, 3) a portion of the gain on the sale of assets at a Company power plant, and 4) a charge to fund the Company's 2017 reliability award.

As always, we will work with commission staff to refine the message should there be any suggestions or issues regarding the proposed language above.

D. Compliance Filing

If the Commission approves this overall net refund and the Company's proposed one-time bill credit methodology, the Company will initiate implementation of the \$3.6 million refund within 90 days of the Commission's Order.⁶ The Company will also file a compliance report within 30 days after completion of this bill credit providing a summary of the overall refund and its components, the interest credited on the DOE payment amount, the customer class allocations, and the actual average customer credit per customer class.

⁶ The Company would determine the optimum day of the month for the refund to start being issued so as to avoid impacting month-end processing of customer billing system data. Generally, the first 2-3 days or last 2-3 days of the month are avoided.

CONCLUSION

The Company respectfully requests the Commission approve our proposed multi-faceted refund of \$3,649,604 to the Company's active North Dakota electric customers with the proceeds received as a result of the 2017 Earnings Sharing mechanism, the DOE settlement and 8th payment, a portion of the gain on the sale of assets from our Inver Grove peaking plant, and the recovery charges related to the achieving the RPP reliability award in 2017. The refund will be extended to active customers in the form of one-time bill credits based upon the customers' 2017 electric usage beginning within 90 days of an approving Commission Order.

The Company believes the proposed net refund is in the public interest. The refund will lower energy bills for customers and save the Company and North Dakota Public Service Commission time and resources to prepare, review, and implement customer credits related to the various elements of the overall refund.

Dated: June 7, 2018

Northern States Power Company