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VIA U. S. AND ELECTRONIC MAIL

Mr. Darrell Nitschke, Executive Secretary
North Dakota Public Service Commission
600 East Blvd.
Bismarck, ND 58505

RE: XCEL ENERGY TAX CUTS & JOBS ACT SETTLEMENT (ELECTRIC)
CASE NOS. PU-17-490, PU-18-155

Dear Mr. Nitschke:

After observing the Commission Work Session on Thursday, December 6, 2018, Northern States Power Company (Xcel Energy, or the Company) would like to clarify a few points regarding the pending Settlement in the above referenced Cases. We recognize that the Commission's decision in this matter is an important one, and that it is critical each Commissioner has the facts with respect to the various outcomes clearly. With that in mind, we would welcome the scheduling of an additional Informal Hearing on the matter.

Rate Impacts of the Settlement and a Rate Case

First, we want to provide some clarification around a central consideration before the Commission—whether the Settlement represents a better outcome for customers compared to the alternative of a 2019 rate case. We believe that it does and provide some additional information below comparing the settlement to a rate case alternative.

- **Settlement:** The Settlement would allow the Company to offset \$9.6 million of costs with tax reform savings in each of 2019 and 2020 in exchange for a two-year rate case moratorium. It would also allow the Company to begin to recover, in the Renewable Energy Rider (RER), its investments in ADP-approved wind projects located outside of North Dakota. These incremental RER revenues would total about \$1 million in 2019 and \$3.7 million in 2020. In total, then, the Settlement would result in base rates remaining flat during 2019 and 2020, and the Company recovering a total of approximately \$4.7 million in incremental revenue through the RER during that two-year period.
- **Rate Case:** By contrast, the rate case being developed indicates an annual overall revenue deficiency in 2019 of approximately \$15 million (utilizing existing rates and after accounting for the savings of the TCJA). If approved, this would amount to a

\$30 million rate increase over the two-year period covered by the Settlement. Even using Advocacy Staff's assumption that the Company would recover only 50 percent of its request, a rate case would result in a \$7.5 million increase in each of 2019 and 2020, for a total increase of \$15 million during the settlement period.¹

We note that the Company's forecasted revenue deficiency in 2019 is based on a rigorous forecast of sales, revenues, and the investments and costs that will be incurred to serve our customers in North Dakota. In addition, we have already made significant plant investments since our last rate case. Specifically, the largest drivers in terms of incremental capital spend since 2013 are the investments we have made in our Monticello and Prairie Island nuclear plants. These nuclear-related investments total more than \$395 million since 2013, and include the replacement of both generators at Prairie Island and numerous other life cycle management projects that were necessary once our nuclear fleet was relicensed for an additional 20 years in 2011.

Our revenue deficiency also includes a number of other drivers, including our ADP-approved investment of \$87 million in the conversion of Black Dog Unit 6 to a natural gas generating plant. Additionally, we have made significant investments since 2013 that are part of our ongoing capital investments into the NSP System—including more than \$50 million in North-Dakota-specific distribution investments since 2013. Finally, we expect our case to include significant adjustments to depreciation rates and other costs of service, along with general increases in O&M and other costs, due to the passage of time since our 2013 case.

Reduced Allowed ROE and 100 Percent Earnings Sharing

While our projected revenue deficiency is verifiable and driven by significant plant investments since our last rate case test year six years ago, it is still a forecast. There is always a degree of uncertainty around future costs and earnings projections. In recognition of this, Advocacy Staff and the Company agreed to include a 100 percent earnings sharing provision in the Settlement based on a 9.85 percent allowed return on equity (ROE). As a result, the Company is prohibited from earning above this amount in either of the rate case moratorium years (2019 or 2020), and any revenues contributing to earnings in excess of this ROE threshold will be returned to customers. The earning sharing mechanism also reflects a 40 basis-point reduction to the company's currently authorized ROE of 10.25 percent.

The earnings sharing mechanism is critical to ensuring that the Settlement is in customers' interest, as it guarantees that the full measure of tax reform benefits flow to customers in each of the moratorium years. This will also protect customers from other unanticipated outcomes, such as a reduced North Dakota demand allocator.

Immediate Customer Benefits and Rate Stability

Adoption of the Settlement will also mitigate the impact to customers of the projected revenue deficiency and provide immediate and material benefits to customers in the form of a \$9.8 million refund for 2018 TCJA savings. The rate case alternative, by contrast, will

¹ Advocacy Staff discussed this in its October 9, 2018 memo supporting the settlement.

delay until late 2019 the refund of any 2018 savings, as an additional process would be needed to determine how the TCJA savings would be returned to customers.

We believe the Settlement also mitigates a “yo-yo” effect on rates that is likely to occur with a rate case scenario. Regardless of what the final outcome of the rate case may be, pursuant to NDCC 49-05-06, the Company would set interim rates consistent with our revised cost of service. Those rates would take effect 60 days after our filing and would likely result in an increase of approximately 6-7 percent. While the revenues collected under interim rates are subject to refund pending resolution of the rate case, the impact to customers would be felt in the bills they receive while the rate case is ongoing. The Settlement mitigates this impact by keeping base rates stable in 2019 and 2020 while allowing the Company to recover the initial costs of its 1,850 MW wind portfolio as customers begin to experience the lower fuel costs of those Company-owned projects via the Fuel Cost Rider.

Finally, along with added rate stability, the Settlement enables the Company and its regulators to focus on other regulatory priorities, such as developing a North Dakota resource planning framework, assessing proposed resource acquisitions, and furthering grid modernization and reliability efforts in the Company’s core urban service areas.

In closing, we believe our favorable electric rates in North Dakota - compared to the region and nation - and our historically moderate electric earnings suggest that our rates could forego a full rate case review at this time. For all of these reasons we believe the Settlement provides a superior outcome for both our customers and the Company in comparison to the filing of a rate case in early 2019.

Sincerely,



David H. Sederquist
Sr. Regulatory Consultant

cc: Jack Schuh
Victor Schock
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