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April 11, 2018

—VIA ELECTRONIC FILING AND U.S. MAIL—

Mr. Darrell Nitschke, Executive Secretary
ND Public Service Commission, Dept. 408
600 E. Boulevard
Bismarck, ND 58504-0480

RE: SALE OF ASSETS AT INVER GROVE GENERATING PLANT – RETURN OF GAIN
Case No. PU-18-___

Dear Mr. Nitschke:

Northern States Power Company, a Minnesota corporation doing business as Xcel Energy, hereby submits to the North Dakota Public Service Commission this Petition for approval to issue to customers, through a one-time credit to the Fuel Cost Rider, \$128,000 of an overall North Dakota jurisdictional gain of \$218,000 associated with an asset sale between the Company and Flint Hills Resources Pine Bend, LLC. The Company proposes to retain the remaining \$90,000 to offset the foregone returns on the sold assets.

We respectfully request that the following persons be placed on the Commission's official service list for all official communications in this case:

David H. Sederquist
Senior Consultant, Regulation and Finance
Xcel Energy
2302 Great Northern Drive
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Carl Cronin
Regulatory Administrator
Xcel Energy
414 Nicollet Mall, 401 – 7th Floor
Minneapolis, Minnesota 55401
regulatory.records@xcelenergy.com

If you have any questions about this matter, please do not hesitate to contact me.

Sincerely,

David H. Sederquist
Sr. Consultant, Regulation & Finance

STATE OF NORTH DAKOTA
BEFORE THE
PUBLIC SERVICE COMMISSION

Randy Christmann	Chair
Julie Fedorchak	Commissioner
Brian Kroshus	Commissioner

IN THE MATTER OF THE ACCOUNTING
TREATMENT FOR AN ASSET SALE BETWEEN
NORTHERN STATES POWER COMPANY – MN
AND FLINT HILLS RESOURCES PINE BEND, LLC

CASE NO. PU-18-____

PETITION

INTRODUCTION

Northern States Power Company, a Minnesota corporation doing business as Xcel Energy, (Xcel Energy, or the Company) hereby submits to the North Dakota Public Service Commission this Petition for approval to issue to customers, through a one-time credit to the Fuel Cost Rider, \$128,000 of an overall North Dakota jurisdictional gain of \$218,000 associated with an asset sale between the Company and Flint Hills Resources Pine Bend, LLC. The Company proposes to retain the remaining \$90,000 to offset the foregone returns on the sold assets.

I. GENERAL FILING INFORMATION

Pursuant to § 69-02-02-04 of the Commission's Rules of Practice and Procedure, the following information is provided.

Utility Employee Responsible for Filing

David H. Sederquist
Sr. Regulatory and Financial Consultant
2302 Great Northern Drive
PO Box 2747
Fargo, ND 58108-2747
(701) 241-8632

This petition is being filed April 11, 2018.

II. DESCRIPTION OF THE FILING

A. Background

1. *Inver Hills Generating Plant*

Built in 1972, the Company's Inver Hills Generating Plant (the Plant) in Inver Grove Heights, Minnesota is a "dual fuel" capable simple cycle power plant comprised of six separate peaking generation units. The Plant was originally designed to operate primarily on fuel oil via three ten-million gallon fuel storage tanks and associated piping and ancillary equipment located adjacent to the Plant. An additional piping system extended to the south of the Plant in approximately a "horseshoe" configuration to provide for fuel delivery to the storage tanks. The assets sold included the fuel storage tanks and the remaining fuel inventory.

One branch of the horseshoe terminated at a pumping station owned by Magellan Midstream Partners, which is the current supply source of fuel oil used at the Plant. The other branch of the horseshoe terminated within the Flint Hills Resources Pine Bend refinery (the Refinery), and at the time of sale was non-operational.

Approximately 20 years ago, the Plant was converted to utilize natural gas as its primary source of fuel while retaining capability to operate on fuel oil as a backup. Because of this dual fuel capability, the Plant still plays in an important role in our electric system as a "black start" facility.¹ As a black start unit, the Company is required to have a back-up supply of fuel readily available, so a failure in supply of natural gas at the Plant does not render it unavailable. This back-up supply of fuel is stored in one of the three storage tanks that were sold to Flint Hills. The other two tanks did not contain fuel and were no longer used for fuel storage purposes.

Flint Hills is a subsidiary of Flint Hills Resources, LLC, which is a refining, chemicals and biofuels company with operations primarily in the Midwest and Texas. Flint Hills operates the Refinery in Rosemount, Minnesota. The Refinery, which is in close proximity to the Company's Plant, is among the nation's top producers of fuels and other petroleum-based products.

¹ Black start generating plants are required by the North American Electric Reliability Corporation (NERC), and the Company's plan is subject to review and approval by the Midcontinent Independent System Operator (MISO). The Company takes the lead in restoring the majority of the regional bulk electric system in a black start outage event. The Inver Hills Generating Plant is a specially-equipped facility designated for this black start function.

2. *Transaction Background*

On June 30, 2017 the Company filed a Petition with the Minnesota Public Utilities Commission (MPUC) requesting approval to sell three tanks and some land at the Plant site to Flint Hill Resources Pine Bend, LLC.

There were three components to this overall transaction - the sale of the tanks and land, the sale of the fuel inventory within one tank, and a Fuel Supply Agreement to serve the Plant:

1. *Tanks and Land* - The Company sold three fuel storage tanks and associated equipment and land to Flint Hills. Flint Hills saw a unique business opportunity with these assets and agreed to pay \$5.3 million for the tanks, which had a net book value of \$3.1 million. Flint Hills is also making additional investments to improve the tanks.
2. *Fuel Oil Inventory* - Flint Hills agreed to purchase the fuel stored in one of the tanks at current market prices, or \$2.4 million, resulting in a gain of \$0.2 million.
3. *Fuel Supply Agreement* – A Fuel Supply Agreement negotiated between the parties provides a back-up fuel source important to the Plant’s black start capability, and also removes the need to make unnecessary investments in the nearly fully depreciated tanks and other equipment. The Agreement provides a savings to customers of \$1.5 million in costs that would have been incurred over the remaining life of the assets.

On December 21, 2017 the MPUC approved the Company’s request and a written Order was issued on February 16, 2018. The Company has finalized the transaction and construction work is in progress to separate the sold properties.

The company recorded a total pre-tax gain on the overall transaction of approximately \$4.2 million for NSPM, or \$218,000 for the North Dakota electric jurisdiction.

B. Request to Retain a Portion of the Proceeds

Due the unique circumstances of this transaction, where: 1) the sales price exceeded the net book value, 2) one of the three storage tanks was still in service and had a remaining life², and 3) the Fuel Supply Agreement will save customers money as compared to storing fuel in a regulated asset, the Company respectfully requests the

² See Minnesota Docket No. E,G002/D-15-46.

North Dakota Public Service Commission allow it to keep a portion of the sales proceeds.³

Of the total North Dakota jurisdiction gain of \$218,000, the Company is proposing to pass \$128,000 directly to customers and retain \$90,000, which is equal to the net present value of the foregone future *return* on the assets and fuel inventory through the end of its approved life. See Attachment A, page 1 for the derivation of this amount. In other words, this particular transaction will benefit customers with the majority of proceeds from the gain and provide a financial outcome for the Company equal to what it would have been had the assets never been sold.

In addition to proceeds from the gain, customers will also enjoy the benefit of elimination of future capital-related (depreciation), fuel, and O&M costs. The net present value of these cost reductions is \$91,000 as shown on Attachment A, page 1. Thus, under this proposal, our customers would receive benefits with a total net present value of approximately \$219,000, including both the net gain and future cost savings over the remaining life of the assets.

C. Request for Variance to Pass the Gain to Customers

Consistent with past practice in North Dakota for certain relatively small customer refunds or charges, the Company proposes to pass the customer portion, or \$128,000, of the gain on to our current customers via a one-time credit to the Fuel Cost Rider (FCR). To effectuate this approach, we are also requesting that the Commission grant a variance to the Commission's Automatic Adjustment Clause rules pursuant to 69-09-02-39, part 10. We believe this variance would facilitate an efficient and timely pass-through of the benefits to customers, would further the public interest, and would not violate any standard imposed by law.

The variance is appropriate because of the relatively small amount of the credit and the one-time nature of the transaction.

The transaction provides a number of benefits. Our customers benefit by capturing a majority of the one-time gain on the sale and realizing reductions in depreciation expense and fuel costs. The electrical system in general also benefits from a continued, reliable secondary fuel source to support the black start capability of the

³ In its consideration of the unique attributes of this transaction, the MPUC determined that the Company's transaction was in the public interest and that it was reasonable for the Company to share in the gain.

Inver Hills Generating Plant. Additionally, there is the potential for further improvement in overall reliability through long term fuel oil supply contracts with a major refinery located adjacent to the Plant.

III. COMMUNICATION AND SERVICE

We respectfully request that the following persons be placed on the Commission's official service list for all official communications in this case:

David H. Sederquist
Senior Consultant, Regulation and Finance
Xcel Energy
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CONCLUSION

The Company respectfully requests the Commission approve its proposal to pass on to our North Dakota electric customers \$128,000 of an overall North Dakota jurisdictional gain of \$218,000 associated with the sale of certain assets at our Inver Hills Generating Plant. Customers would also see \$91,000 (NPV) of future cost savings from the elimination of certain capital and operating costs. Secondly, the Company requests approval of a variance to the Fuel Adjustment Clause rules to allow the gain proceeds to be delivered to customers through the Company's Fuel Cost Rider. Finally, the Company requests approval to retain the balance of the gain to offset the foregone returns on the assets sold.

Dated: April 11, 2018

Northern States Power Company



By: _____

DAVID H. SEDERQUIST
SR. REGULATORY CONSULTANT
XCEL ENERGY (NORTH DAKOTA)

	<u>Total Company</u>	<u>ND Jurisdiction</u>	
1 Asset Purchase Price	\$ 5,321	\$ 280	
2 Estimated Fuel Purchase Price (a)	2,378	125	
3 Tank & Equipment Book Value (b)	3,054	160	
4 Fuel Inventory Book Value (b)	2,165	119	
5 Land Book Value (b)	81	4	
6 Less Accumulated Reserve (b)	<u>(2,180)</u>	<u>(115)</u>	
7 Total Asset Net Book Value	3,119	169	
8 Estimated Transaction Costs	335	18	
9 Pre-tax Gain on Sale (line 1+2-7-8)	<u><u>\$ 4,245</u></u>	<u><u>\$ 218</u></u>	ND Jurisdiction Gain

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
11 Customer Cost Savings (ND Jur):										
12 Asset Revenue Requirement (pg. 2)	\$12	\$10	\$10	\$9	\$9	\$8	\$8	\$8	\$7	\$7
13 Fuel Revenue Requirement (pg. 3)	13	11	11	11	11	11	11	11	11	11
14 O&M Expense (c, d)	2	2	2	2	2	3	3	3	3	35
15 Total Rev Reqs if Assets Retained	<u>27</u>	<u>23</u>	<u>23</u>	<u>23</u>	<u>22</u>	<u>22</u>	<u>22</u>	<u>21</u>	<u>21</u>	<u>53</u>
16 Estimated Fuel Supply Agreement (d)	(9)	(10)	(10)	(10)	(10)	(11)	(11)	(11)	(11)	(12)
17 Net Customer Savings	<u><u>\$18</u></u>	<u><u>\$14</u></u>	<u><u>\$13</u></u>	<u><u>\$13</u></u>	<u><u>\$12</u></u>	<u><u>\$11</u></u>	<u><u>\$11</u></u>	<u><u>\$10</u></u>	<u><u>\$10</u></u>	<u><u>\$41</u></u>

18 **Net Present Value of Customer Savings** **\$ 91**
 ROE 10.25% @ 52.50 Equity Ratio NPV 2018 - 2026

19 NSPM to Retain Return on Investments (ND Jur):										
20 Asset Debt & Eq Ret (pg 2) + Eq Tax Gross-up	\$4	\$3	\$2	\$2	\$1	\$1	\$0	(\$0)	(\$1)	(\$1)
21 Fuel Debt & Eq Ret (pg 3) + Eq Tax Gross-up	15	13	13	13	13	13	13	13	13	13
22 Total Return on Investments	<u><u>\$19</u></u>	<u><u>\$16</u></u>	<u><u>\$15</u></u>	<u><u>\$15</u></u>	<u><u>\$14</u></u>	<u><u>\$14</u></u>	<u><u>\$13</u></u>	<u><u>\$13</u></u>	<u><u>\$13</u></u>	<u><u>\$12</u></u>

23 **Net Present Value of NSPM Return on Investments** **\$ 90**
NPV 2018 - 2026

24 Proposed Sharing of Gain on Sale (ND Jur):	
25 Pre-tax Gain on Sale (line 9)	\$ 218
26 Less Gain Retained by NSPM (line 23)	<u>\$ (90)</u>
27 Net Gain to Customers	<u><u>\$ 128</u></u>

28 **Total Customer Benefit (Cost Savings + Gain on Sale)** **\$ 219**
 (line 18 + line 27)

(a) The actual market price of fuel as of 2/28/18 results in a gain on the sale of fuel inventory.
 (b) Asset values as of 2/28/18
 (c) Assumes tank inspection in 2026
 (d) Includes inflation assumptions

Northern States Power Company
 North Dakota Jurisdiction
 Inver Hills Tank Sale - Fuel Revenue Requirement
 Amounts in \$000s

	Total Company (Before IA) 2018	ND Jurisdiction 2018
Rate Analysis		
1 <u>Average Balances:</u>		
2 Other Rate Base (Fuel Inventory)	2,165	141
3 Depreciation Reserve	-	-
4 CWIP	-	-
5 Accumulated Deferred Taxes	-	-
6 Average Rate Base = line 2 - line 3 + line 4 - line 5	2,165	141
7		
8 <u>Revenues:</u>		
9 Interchange Agreement offset = -line 40 x line 52 x line 53		(2)
10		
11 <u>Expenses:</u>		
12 Book Depreciation	-	-
13 Annual Deferred Tax	-	-
14 ITC Flow Thru	-	-
15 Property Taxes	-	-
16 subtotal expense = lines 12 thru 15	-	-
17		
18 <u>Tax Preference Items:</u>		
19 Tax Depreciation & Removal Expense	-	-
20 Tax Credits (enter as negative)	-	-
21 Avoided Tax Interest	-	-
22		
23 AFUDC	-	-
24		
25 <u>Returns:</u>		
26 Debt Return = line 6 x (line 44 + line 45)	48	3
27 Equity Return = line 6 x (line 46 + line 47)	116	8
28		
29 <u>Tax Calculations:</u>		
30 Equity Return = line 27	116	8
31 Taxable Expenses = lines 12 thru 14	-	-
32 plus Tax Additions = line 21	-	-
33 less Tax Deductions = (line 19 + line 23)	-	-
34 subtotal	116	8
35 Tax gross-up factor = t / (1-t) from line 50	0.322837	0.322837
36 Current Income Tax Requirement = line 34 x line 35	38	2
37 Tax Credit Revenue Requirement = line 20 x line 35 + line 20	-	-
38 Total Current Tax Revenue Requirement = line 36+ line 37	38	2
39		
40 Total Capital Revenue Requirements	202	11
41 = line 16 + line 26 + line 27 + line 38 - line 23 + line 9		
42 O&M Expense	-	-
43 Total Revenue Requirements	202	11

<u>Capital Structure</u>	<u>Weighted Cost</u>
44 Long Term Debt	2.1700%
45 Short Term Debt	0.0300%
46 Preferred Stock	0.0000%
47 Common Equity	5.3800%
48 Required Rate of Return	7.5800%
49 PT Rate	0.0000%
50 Tax Rate (ND)	24.4049%
51 ND JUR Energy	6.5140%
52 ND JUR Demand	6.2357%
53 IA Demand	84.2464%