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June 21, 2018

—VIA EMAIL & U.S. MAIL—

Mr. Darrell Nitschke
Director of Administration and Executive Secretary
North Dakota Public Service Commission
State Capitol Building, Dept. 408
600 East Boulevard
Bismarck, ND 58505-0480

RE: NDPSC RATE IMPACT AND ACCOUNTING TREATMENT INVESTIGATION
CONCERNING THE TAX CUTS AND JOBS ACT (TCJA)
CASE NO. PU-17-490

Dear Mr. Nitschke:

Northern States Power Company, doing business as Xcel Energy and operating in North Dakota, submits to the North Dakota Public Service Commission this response to staff's April 29th submittal describing staff's review, comments, and recommendations in the above-referenced docket.

In its January 10, 2018 Order initiating the Investigation, the Commission essentially required North Dakota utilities to do two things:

1. Establish the regulatory accounting to begin recording the customer benefits of the TCJA effective January 1, 2018, and
2. Submit information, by February 15, 2018, explaining and quantifying the impacts of the TCJA on their respective North Dakota utility operations.

Xcel Energy filed its initial comments on February 15th. The Company provided preliminary financial impact information while indicating that it was continuing to analyze more precisely the full impact of the TCJA. We also pointed out that while there are always fluctuations in revenues and expenses between formal rate proceedings, the drivers of such changes are not always best addressed through a base rate adjustment resulting from a review of a single cost driver, in isolation of other

factors. Instead, it would be prudent to consider specific changes in the context of the Company's overall jurisdictional earnings relative to the commission-authorized level, how many years have elapsed since the last base rate case, whether a future rate application could be deferred, and/or what other mechanisms are available to more efficiently pass savings on to customers.

With its April 29 letter, Commission Staff conveyed the following findings:

- The impacts of the TCJA on each utility will vary based primarily on proximity to past rate cases, and each utility should be reviewed individually within separate dockets;
- Due to the many layers of tax reform effects, a comprehensive review is difficult outside of a full cost study, such as performed in a rate proceeding;
- The two primary impacts of the TCJA are reduced tax expense from the tax rate reduction and the savings that will result from the collection of excess deferred income taxes (EDIT)¹;
- Other revenue requirement impacts include loss of bonus depreciation, allowable deductions, and adverse effects on credit metrics.

Electric Rates

At this juncture, the Company intends to wait until there is more certainty regarding the pending Resource Treatment Framework (RTF) docket before it advances a TCJA rate relief proposal with the Commission. Presently, the Commission has scheduled an Informal Hearing on June 27th to hear and discuss Xcel Energy's rationale for keeping the RTF docket active. The Company believes it should take advantage of the work done thus far in building a record, and move forward to address a more formal resource planning process in North Dakota and adequate cost recovery in those instances when Company-proposed resources do not receive regulatory approvals in all of the states served by the integrated NSP System. Should the Commission decide to close the RTF proceeding, the Company may consider filing a general rate application late in 2018 to holistically address the TCJA and RTF impacts as well as other cost recovery needs.

¹ Deferred taxes are the result of using accelerated tax depreciation to compute IRS tax expense, and straight-line depreciation for purposes of computing tax expense in setting rates. When the tax rate is reduced, the amount of tax expense over-collected from customers under the old tax rate will be greater than what the utility will ultimately pay under the new rate – this difference represents a customer savings. Normalization rules require the excess deferred tax to be amortized over the remaining life of plant-related assets under the Average Rate Assumption Method (ARAM)

Natural Gas Rates

Xcel Energy is currently developing a proposal to benefit its natural gas customers in North Dakota that could form the basis for a future Settlement Agreement with Staff. The proposal would essentially establish a method and timeline to apply TCJA cost savings related to natural gas service toward the costs of cleaning up the former manufactured gas plant (MGP) site in Fargo, North Dakota. Such a proposal would enable the Company to reduce the balance of clean-up costs being deferred for later rate treatment, thereby lowering costs recoverable from customers in the future. The Company intends to meet with Staff to discuss some concepts, with a formal proposal or settlement likely to be filed later this summer.

The Company looks forward to the Commission's June 27th Informal Hearing in the electric RTF docket and working with Staff on a natural gas TCJA rate proposal this summer.

Please contact Pamela Gibbs at (612) 330-2889 or me if you have any questions regarding this update letter. Thank you.

SINCERELY,



DAVID H. SEDERQUIST
SR. CONSULTANT, REGULATION & FINANCE

cc: Patrick Fahn
Jack Schuh
Victor Schock