

March 15, 2019

- Via Email and Federal Express -Steve Kahl, Interim Executive Director
North Dakota Public Service Commission
State Capitol Building, Dept 408
600 East Boulevard
Bismarck, ND 59505-0480RE: 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-19-____

Dear Mr. Kahl:

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 the enclosed Petition for approval of the accounting treatment for an asset sale between the Company and Flint Hills Resources Pine Bend, LLC. The Company recently received approval to sell two liquid propane fuel storage tanks, associated equipment, and real property to Flint Hills Resources Pine Bend, LLC. The Company's Petition requests approval to apply the North Dakota jurisdictional share of the gain on the sale to partially offset the deferred costs of remediating the site of the former manufactured gas plant located in Fargo, North Dakota.

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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Fargo, ND 58102
dave.sederquist@xcelenergy.comLynnette Sweet
Regulatory Administrator
Xcel Energy
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Please contact me if you have any questions regarding this filing.

Sincerely,

DAVID H. SEDERQUIST
Sr. Consultant, Regulation & Finance

Enclosures

STATE OF NORTH DAKOTA
BEFORE THE
PUBLIC SERVICE COMMISSION

Brian Kroshus	Chair
Julie Fedorchak	Commissioner
Randy Christmann	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-19-____

PETITION

INTRODUCTION

Northern States Power Company, a Minnesota corporation doing business as Xcel Energy, (Xcel Energy, or the Company) recently received approval to sell two liquid propane (LP) fuel storage tanks, associated equipment, and real property to Flint Hills Resources Pine Bend, LLC (Flint Hills). The Company hereby submits this Petition for approval to apply the North Dakota jurisdictional share of the gain on the sale to partially offset the deferred costs of remediating the site of the former manufactured gas plant (MGP) located in Fargo, North Dakota.

The Commission approved similar accounting treatment for the natural gas utility savings resulting from the Tax Cuts and Jobs Act (TCJA) in its November 8, 2018 Order on Settlement in Case No. PU-18-156. Applying the \$649,000 credit from this sale to the deferred Fargo MGP remediation costs is an efficient way to further reduce the amount of remediation costs recoverable from our natural gas customers.

The Company no longer needed the LP storage the two tanks at the Company's Wescott LP facility provide, and a recent Minnesota Office of Pipeline Safety (MNOPS) inspection revealed investments of approximately \$4 million would be necessary to keep the facilities operational. An analysis of whether to upgrade the facilities and pass the costs on to customers or dispose of the facilities indicated it was not in the best interest of customers to make these needed investments in the Wescott LP facility so the Company decided the assets should be sold.

I. GENERAL FILING INFORMATION

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

Full Name and Post Office Address of the Applicant:

Xcel Energy
2302 Great Northern Drive
Fargo, ND 58102

We also request the following person be placed on the Commission's service list for all communications in this case:

David H. Sederquist, Sr. Regulatory Consultant
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Lynnette Sweet, Regulatory Administrator
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II. BACKGROUND

1. *The Wescott Facility*

The Company's Wescott LP facility in Inver Grove Heights, Minnesota serves two main functions: 1) liquefaction and vaporization of liquefied natural gas (LNG), and 2) storage of LP. Only the LP facilities are the subject of this petition; the LNG facilities are not affected by the proposed transaction. See Attachment A for a map of the Wescott LP facilities.

The Wescott LP facilities consist of two storage vessels:

- Vessel 15 (V15), capable of storing 5,850,000 gallons of LP, and
- Vessel 3 (V3), capable of storing 5,030,000 gallons of LP.

The two vessels stored additional inventory for the Company's Sibley LP facility. Until recently, the additional LP inventory at Wescott was transported via a Company-owned seven mile pipeline to the Sibley LP plant.

At the Sibley LP facility, LP is mixed with air and injected into the Company's natural gas distribution pipeline primarily to meet the demand of our firm customers or provide natural

gas supply to the Company's "limited firm" service customers. The sale of the LP storage tanks at Wescott will not impact the operational requirements of the Sibley LP facilities.

2. *Minnesota Office of Pipeline Safety (MNOPS) Audit*

In September 2016, MNOPS conducted an inspection of the Wescott LP facilities and pipeline to the Sibley facility, which are covered under federal code requirements (*49 Code of Federal Regulations Part 195*).

MNOPS made several findings in their inspection, some of which were minor and easily addressed, such as those related to operational and maintenance procedures and records. However, some findings were more significant and required substantial investment to resolve, like the physical internal inspection of interior of the two LP storage tanks. In total, the Company determined it would need to invest approximately \$4.0 million in the Wescott LP facilities to resolve the requirements contained in the MNOPS inspection.

In addition to the outcome of the MNOPS inspection, the Company commissioned an external analysis of the Wescott LP facilities which confirmed that piping between LP storage tanks and the LP pipeline from Wescott to the Sibley Plant were subject to *49 Code of Federal Regulations Part 195*. However, original construction of this piping was considered process piping and thus does not meet the code requirements under Part 195. The continued operation of the LP piping would also necessitate that the Company upgrade it to the requirements of that Code, which was estimated to cost an additional \$310,000.

3. *Sale of the Wescott LP Facilities*

The Company performed an analysis to determine if it was in the best interest of customers to make the needed investments in the Wescott LP facilities or to divest the assets. The analysis supported divestiture of the Wescott LP facilities. Since the Company currently has adequate storage at its Sibley LP facilities to meet the peak day needs of both our firm and "limited firm" customers, the sale of the Wescott LP facilities will not have any operational impact to our customers.

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 a refinery in Rosemount, Minnesota which is in close proximity to the Company's Wescott facility. Flint Hills is among the nation's top producers of fuels and other petroleum-based products. In the late 1990s, the Company determined that the capacity of the Wescott LP storage tanks was no longer needed for operational purposes at the Sibley LP facilities. Therefore, the Company entered into a storage lease agreement with Flint Hills. The most recent agreement, effective on April 1, 2016, allowed Flint Hills to store up to 9 million gallons of LP at the Wescott LP facilities. This agreement expired on March 31, 2018.

Because the storage capacity at the Wescott LP facilities was no longer operationally needed and the space had been leased to Flint Hills for several years, the Company approached Flint Hills to see if they had any interest in acquiring the LP facilities at Wescott. Flint Hills was perhaps the only potential buyer of these assets due to the close proximity of their Rosemount refinery to the Wescott facility. They indicated a willingness to buy the assets “as-is,” remediate the site, and invest in the improvements required by MNOPS. However, the Company was required to empty all the LP out of both tanks and perform an internal tank inspection of one of the tanks as a condition of the sale.

Under the terms of the Asset Purchase Agreement, Flint Hills will purchase from the Company two LP storage tanks, associated equipment, and real property upon which the tanks and facilities are located for a price of \$10 million. In addition, Flint Hills will reimburse the Company for one-half of a park dedication fee charged by the City of Inver Grove Heights related to the subdivision of real property necessary for the transaction. The Company has estimated it would incur closing costs totaling approximately \$4.2 million to prepare the Wescott LP storage tanks and related facilities for sale, empty the LP out of both tanks, perform one tank inspection, maintain site security, and procure needed land right-of-way.¹ The calculation of the gain and an analysis of the transaction is included as Attachment B. It shows that even in the unlikely scenario that the Company does not file its next natural gas rate case for another ten years the gain would more than offset the costs being recovered in base rates..

On April 25, 2018, the Company filed a Petition with the MPUC requesting approval to sell two liquid propane (LP) fuel storage tanks, associated equipment, and real property to Flint Hills. On January 31, 2019 the MPUC orally approved the sale and a written order is pending.

The Company expects to record a total pre-tax gain on the overall transaction of approximately \$5.2 million, or \$649,000 for the North Dakota gas jurisdiction.

III. REQUEST TO CREDIT GAIN TO FARGO MGP REMEDIATION

In Case No. PU-15-514, the Commission approved the Company’s application for deferred accounting for the Fargo MGP project. The Company has been providing quarterly updates to the Commission on the progress of the remediation project in that docket.

¹ On May 1, 2018, the Company filed an informational letter with the Commission to inform them of this transaction and confirm that if and when the Minnesota Public Utilities Commission approved the transaction, the Company would make a filing with the Commission to return a jurisdictional share of the proceeds to our North Dakota customers. The actual costs incurred to prepare the tanks and related facilities for sale were higher than expected at the time the informational letter was filed, resulting in a corresponding decrease in the total estimated pre-tax gain. Even so, as the analysis in Attachment B demonstrates, this transaction is still in the best interests of the Company’s customers.

In the Commission's recent decision in its investigation into the effects of TCJA for the Company's natural gas utility, the Commission approved a settlement between the Company and its advocacy staff whereby the benefits flowing from the TCJA are to be credited to the Fargo MGP remediation cost balance until the next base rate case, at which time they will be incorporated into base rates and the MGP amortization will be included in the Cost of Gas Rider. Similarly, the Company proposes to apply the \$649,000 North Dakota portion of the one-time gain on sale toward the Fargo MGP remediation project, and thereby further reduce the amount of remediation costs that will ultimately be recovered from customers².

The Fargo MGP remediation is a sizable expense for our natural gas customers, and will likely take over 12 years to amortize and recover in rates. The Company believes applying the gain to the MGP deferral is the preferred approach because it offers another opportunity to buy down the total amount and/or shorten the amortization period for the benefit of customers while avoiding the complexities of a fairly small rate adjustment or bill credit.

CONCLUSION

Xcel Energy respectfully requests that the Commission approve the Company's proposal to apply the \$649,000 North Dakota jurisdictional share of the gain on the sale of certain natural gas assets at our Westcott LP facility to the deferred costs of remediating the Fargo MGP site. This approach would efficiently provide benefits to customers by further reducing the amount of the MGP remediation costs recoverable from customers.

Dated: March 15, 2019

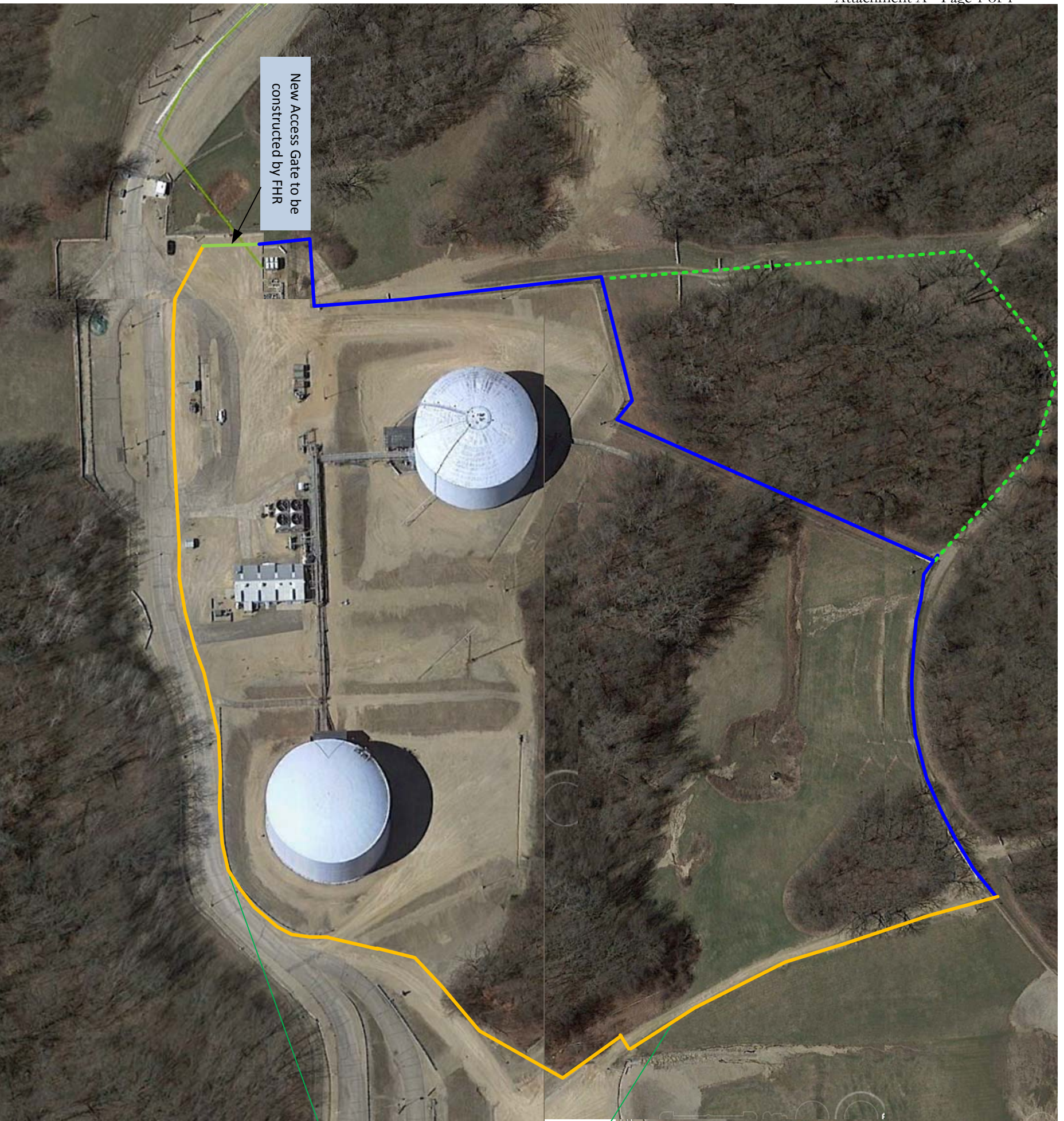
Northern States Power Company






By: _____

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

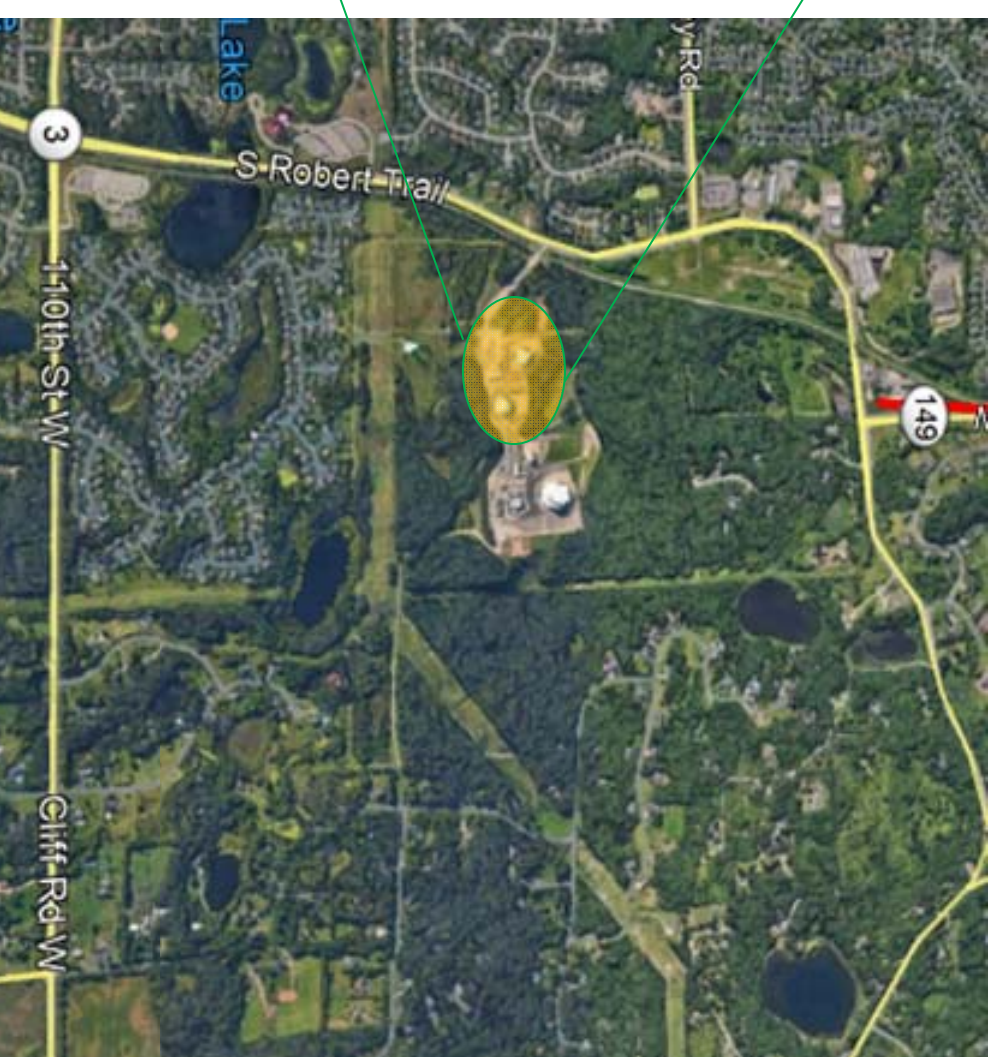
² The Company acknowledges that, per the TCJA Settlement in Case No. PU-18-156, the final amount of MGP remediation costs attributable to North Dakota must be filed with the Commission within 90 days of completion of all remediation work, and understands that the amount is subject to the review, potential adjustment, and approval of the Commission for purposes of determining the recoverable portion.



Proposed Wescott LPG Property Split and Fence Line

-  Proposed Fence to separate facility
-  Existing fence that will be utilized
-  New fence to be constructed by FHR (TBD – not finalized if fence will exist)

Last updated on: 3/29/2018



	Total Company			ND Jurisdiction		
	Land	P&E	Total	Land	P&E	Total
1 Asset Purchase Price	\$3,000	\$7,000	\$10,000	\$373	\$870	\$1,243
2 Tank & Equipment Book Value (a)		5,900	5,900		734	734
3 Land Book Value (a)	50		50	6		6
4 Less Accumulated Reserve (a)		(5,400)	(5,400)		(671)	(671)
5 Total Asset Net Book Value (line 2+3+4)	50	499	549	6	62	68
6 Estimated Transaction Costs	63	4,167	4,230	8	518	526
7 Pre-tax Gain on Sale (line 1-5-6)	\$2,887	\$2,333	\$5,220	\$359	\$290	\$649

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
8 Calculation of Customer Impact (MN Jur):											
9 Capital Revenue Requirements in Current Rates	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)	(30)
10 Projected O&M net of tank rental credit in Current Rates	(62)	(62)	(62)	(62)	(62)	(62)	(62)	(62)	(62)	(62)	(62)
11 Net Revenue Requirements Collected from Customers	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)
12 Net Prevent Value of Rev Req in Current Rates	\$ (626)										
13 Proposed Pre-tax Gain to Customers	\$ 649										
14 Total Customer Benefit (Gain on Sale net of NPV on Rev Req in Current Rates) (line 12 + line 13)	\$ 23										

Benefit Recap: Net PV of Benefit if Rate Case is Filed ...	Benefit
File with a Test Year of 2020	\$ 565
File with a Test Year of 2021	\$ 488
File with a Test Year of 2022	\$ 417
File with a Test Year of 2023	\$ 351
File with a Test Year of 2024	\$ 292
File with a Test Year of 2025	\$ 237
File with a Test Year of 2026	\$ 186
File with a Test Year of 2027	\$ 140
File with a Test Year of 2028	\$ 98
File with a Test Year of 2029	\$ 59
File with a Test Year of 2030	\$ 23

(a) Asset values as of 2/28/19

<u>Rate Analysis</u>	<u>Total Company</u> <u>2007TY</u>	<u>ND Jurisdiction</u> <u>2007TY</u>
1 <u>Average Balances:</u>		
2 Plant Investment	5,297	547
3 Depreciation Reserve	4,233	437
4 CWIP/RWIP	-	-
5 Accumulated Deferred Taxes	331	34
6 Average Rate Base (line 2 - 3 + 4 - 5)	<u>732</u>	<u>76</u>
7 <u>Expenses:</u>		
8 Book Depreciation	157	16
9 Annual Deferred Tax	(33)	(3)
10 ITC Flow Thru	-	-
11 Property Taxes (Estimated)	73	8
12 subtotal expense = lines 8 thru 11	<u>197</u>	<u>20</u>
13 <u>Tax Preference Items:</u>		
14 Tax Depreciation & Removal Expense	80	8
15 Tax Credits (enter as negative)	-	-
16 Avoided Tax Interest	-	-
17 AFUDC	-	-
18 <u>Returns:</u>		
19 Debt Return = line 6 x (line 42 + line 43)	25	3
20 Equity Return = line 6 x line 44	41	4
21 <u>Tax Calculations:</u>		
22 Equity Return = line 20	41	4
23 Taxable Expenses = lines 8 thru 10	124	13
24 plus Tax Additions = line 16	-	-
25 less Tax Deductions = (line 14 + line 17)	(80)	(8)
26 subtotal	<u>84</u>	<u>9</u>
27 Tax gross-up factor = t / (1-t) from line 47	32.28%	32.28%
28 Current Income Tax Requirement = line 26 x line 27	27	3
29 Tax Credit Revenue Requirement = line 15 x line 27 + line 15	-	-
30 Total Current Tax Revenue Requirement = line 28+ line 29	<u>27</u>	<u>3</u>
31 Total Capital Revenue Requirements	290	30
32 (line 12 + line 19 + line 20 + line 30 - line 17)		
33 Projected O&M net of tank rental credit	599	62
34 Total Revenue Requirements = line 31 + line 33	<u>889</u>	<u>92</u>
	Weighted	
35 <u>Capital Structure (Docket ND06 - 525)</u>	<u>Cost</u>	
36 Long Term Debt Ratio	A	46.41%
37 Short Term Debt Ratio	B	2.00%
38 Common Equity Ratio	C	51.59%
39 Cost of Long Term Debt	D	7.08%
40 Cost of Short Term Debt	E	5.81%
41 Cost of Common Equity	F	10.75%
42 Weighted Cost Long Term Debt	A * D	3.29%
43 Weighted Cost Short Term Debt	B * E	0.12%
44 Weighted Cost Common Equity	C * F	<u>5.55%</u>
45 Required Rate of Return		8.96%
46 PT Rate		1.38%
47 Composite Tax Rate (restated to new Federal 21% Tax Rate)		24.40%
48 2007 Gas Design Day		10.3268%
49 2019 Gain Share % - North Dakota		12.4345%