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January 17, 2020

VIA U. S. AND ELECTRONIC MAIL

Mr. Steven M. Kahl, Executive Secretary
North Dakota Public Service Commission
State Capitol Building, Dept. 0408
600 East Boulevard
Bismarck, ND 58505-0480

RE: NORMALIZATION OF PRODUCTION TAX CREDITS
2020 RENEWABLE ENERGY RIDER (CASE NO. PU-19-329)

Dear Mr. Kahl:

Northern States Power Company, doing business as Xcel Energy, respectfully submits the following proposal to address the Commission's interest in having owners of renewable resources qualifying for Production Tax Credits (PTCs) "normalize" these credits throughout the expected service lives of each resource in order to address potential issues of generational equity.

Background

Federal law provides tax credits for owners of qualifying renewable resources based on the energy production of the given resource. These statutory credits are granted to owners of renewable resources based on the total kWh of energy generated by the resource during its first ten years of commercial operation, and the value of the credits per kWh varies depending on the timing of the resource's construction. The credits are valuable to customers because they can be used to reduce the Company's tax liability and, consequently, the amount the Company needs to recover from customers in rates to satisfy that liability. Based on the time-value of money, accounting for the PTCs as they are created during these first years of operation provides, on a *net present value* basis, the greatest value to all customers as a whole.

Notwithstanding this time-based benefit, in early 2019[1], the Commission questioned whether passing on the benefits of PTCs as they are generated during the first ten

[1] Case No. PU-18-368, the Company's 2019 Renewable Energy Rider (RER) February 6, 2019 informal hearing

years of a resource's life created issues of generational equity that negatively affected customers paying for a resource after its first ten years without receiving any PTC benefits. Although no action was taken at that time to adjust the Company's proposed 2019 RER charge, Xcel Energy subsequently began working with Commission staff to develop proposals to address this issue of generational equity and "normalize" the benefit of the PTCs in future RER rate updates by spreading the benefit across the life of a given resource. Two methods were considered in those discussions, but a definitive approach was not finalized and filed with the Commission for approval.

On September 27, 2019, the Company filed its annual RER update petition for 2020, again, applying its historical, standard treatment of PTCs. On January 8, 2020, the Commission held an Informal Hearing in Montana-Dakota Utilities' 2020 Renewable Resource Cost Recovery docket, and discussed at length the topic of PTC normalization. The Commission discussed two particular normalization methods to spread each resource's PTCs over a resource's expected life: (1) a straight-line distribution of the resource's total expected PTCs over its anticipated service life, and (2) a method devised by Commission Staff referred to as the "Victor Method"[2] (VM), which tied the redistribution of each resource's total PTCs to the return on rate base component of the annual revenue requirement. By the close of the meeting, the Commission appeared to be leaning toward the VM.

Xcel Energy Proposal

Although we continue to believe that the standard treatment of PTCs provides the greatest value to customers, if the Commission desires to change this accounting method to address generational equity, the most direct and intuitive approach is the straight-line distribution whereby a qualifying resource's total forecasted PTCs are spread evenly over the expected life of the resource. We refer to this approach as the "Levelized Credit Method," or LCM.

The key reasons for recommending the LCM are as follows:

1. This approach is simpler to calculate, administrate, and explain;
2. It provides both current and future customers with equal PTC benefits without modifying fundamental ratemaking principles; and
3. It maintains, over the life of the resource, the same annual revenue requirement "pattern" as other typical utility investments, which, in turn, contributes to rate stability as the higher revenue requirements of newer resources are gradually offset with the annually decreasing revenue requirements of older, depreciating resources.

[2] Trademark pending.

These reasons are discussed more fully below:

A. Reflects a More Understandable and Administratively Simple Approach

Under the LCM, normalizing the PTCs for a given resource through the RER is simply a matter of forecasting the total PTCs that would be generated during the resource's first ten years of operation, dividing this amount by the resource's expected life, and assigning the quotient as the credit to each year of the resource's life. Where adoption of the LCM method occurs after a resource has already been in service, the calculation of the annual levelized PTC for the remaining years of service would be based on the remaining total PTCs forecasted to be generated for the resource divided by the remaining life of the resource. This approach is notably less complicated than the VM calculation, which requires calculating a ratio of a resource's total PTCs to its total forecasted returns, then applying this ratio to each year's forecasted annual return (which, in turn, requires consideration of the authorized Return on Equity (ROE) in future years) to determine the PTC offset for that year.

B. Avoids a Generational Subsidy

The LCM directly addresses the generational inequity of PTCs by evenly spreading the PTCs to customers throughout the anticipated life of a resource. On the other hand, although the VM does provide some PTC benefits to customers throughout the life of a resource, it does so on a declining basis as the return of and on a particular resource diminishes over time. This does, theoretically, result in greater levelization of of the debt and equity return associated with a qualifying resource throughout the resource's life, but it does not resolve the generational PTC equity issue identified by the Commission. Under the VM, current customers would continue to receive greater PTC benefits than future customers.

C. Maintains the Traditional Investment Revenue Requirement Profile and Helps Keep Rates Stable

The normal annual revenue requirement pattern of a utility investment in a given resource reflects higher costs in the early years of the asset with gradual, annual declines in cost over the rest of its service life. This is primarily a result of the original plant investment being depreciated over time and the annual debt and equity return component on the decreasing rate base being lower each year. Use of the LCM maintains a revenue requirement profile for any qualifying resources which is consistent with other utility investments by distributing the same amount of PTCs each year. The VM, on the other hand, would functionally depart from this pattern of revenue requirements produced by all other generation assets (as well as transmission, distribution, and customer service investments, for that matter), with the shape of the year-to-year costs associated with a qualifying resource remaining relatively level.

By maintaining the traditional revenue requirement pattern over time, the LCM ensures the annually decreasing costs of these renewable resources will help to mitigate increasing costs due to future plant additions. The VM would not reflect any material cost reductions for a given resource until the end of its service life. Then, costs would drop to zero, and the annual cost reduction would be larger than normal. This imbalance between the revenue requirement pattern for qualifying resources compared to other utility investments could create "chunkier" impacts on revenue requirements from year to year, leading to greater rate variability.

Attachment A to this letter compares the annual revenue requirements and typical residential bill impacts of Xcel Energy's wind resources included in the RER under various scenarios: as if there were no PTCs, using the Standard PTC treatment (as filed), employing the Levelized Credit Method, and finally, using the Victor Method. The chart illustrates how the LCM affords a constant PTC benefit throughout the lives of the resources while maintaining the traditional utility revenue requirement pattern. The residential bill impact table shows that the estimated impact of the LCM would be to increase 2020 bills by about $1.29 per month, while eliminating the substantial Year 11 rate increase the Standard PTC treatment affords.

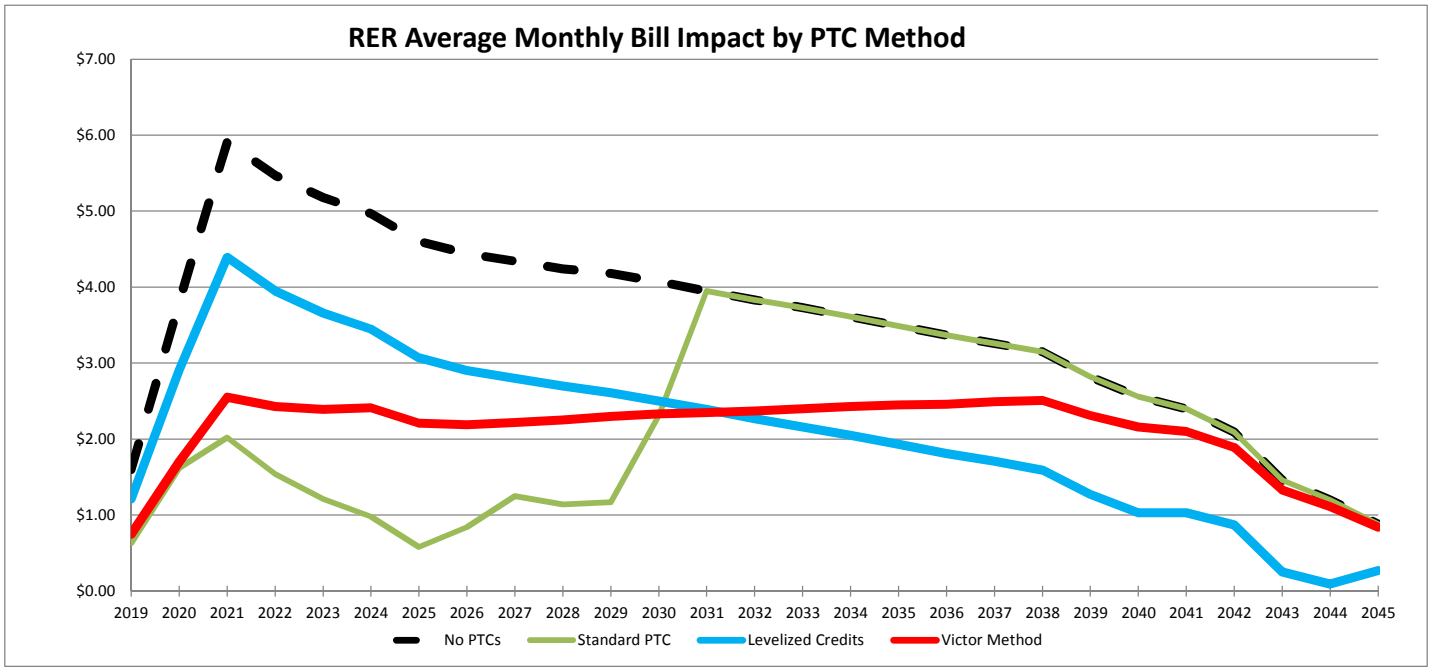
Conclusion

Should the Commission desire to "normalize" PTCs to address concerns about generational equity, Xcel Energy respectfully requests that the Commission adopt for ratemaking purposes the Company's proposed Levelized Credit Method to evenly and fairly distribute the credits over the full (or remaining) life of each qualifying resource. For the current RER docket, Xcel Energy would adjust the revenue requirement for 2020 and all future years to determine the RER rate adjustment for North Dakota customers.

The Company will further address this proposal at the scheduled January 22 Informal Hearing on this matter. Please feel free to contact me at (701) 241-8632 or dave.sederquist@xcelenergy.com should you have any questions about this response.

Sincerely,

David H. Sederquist
Sr. Regulatory/Financial Consultant
Xcel Energy



Revenue Requirements

Year	No PTCs	Standard PTC Treatment	Levelized Credit Method	Victor Method
2019	$4,800,686	$1,876,866	$3,627,257	$2,243,105
2020	$11,321,622	$4,816,713	$8,665,226	$5,071,414
2021	$17,501,780	$5,972,535	$12,998,606	$7,559,006
2022	$16,183,031	$4,558,472	$11,679,857	$7,196,589
2023	$15,305,598	$3,578,276	$10,802,424	$7,068,928
2024	$14,693,613	$2,888,494	$10,190,439	$7,118,064
2025	$13,515,147	$1,710,028	$9,011,972	$6,492,056
2026	$13,009,987	$2,464,307	$8,506,813	$6,424,139
2027	$12,683,722	$3,644,204	$8,180,548	$6,494,436
2028	$12,357,718	$3,318,200	$7,854,544	$6,564,978
2029	$12,031,879	$3,381,753	$7,528,705	$6,635,686
2030	$11,706,225	$6,655,101	$7,203,051	$6,706,577
2031	$11,379,787	$11,379,787	$6,876,613	$6,776,328
2032	$11,053,382	$11,053,382	$6,550,208	$6,845,387
2033	$10,729,427	$10,729,427	$6,226,253	$6,916,550
2034	$10,404,331	$10,404,331	$5,901,157	$6,986,071
2035	$10,078,356	$10,078,356	$5,575,182	$7,052,897
2036	$9,756,039	$9,756,039	$5,252,865	$7,121,326
2037	$9,437,211	$9,437,211	$4,934,037	$7,192,478
2038	$9,118,582	$9,118,582	$4,615,408	$7,263,831
2039	$8,210,787	$8,210,787	$3,707,612	$6,731,781
2040	$7,497,455	$7,497,455	$3,027,136	$6,322,546
2041	$7,049,543	$7,049,543	$3,026,610	$6,152,718
2042	$6,163,285	$6,163,285	$2,570,212	$5,571,242
2043	$4,343,610	$4,343,610	$750,536	$3,961,863
2044	$3,610,746	$3,610,746	$281,001	$3,344,368
2045	$2,656,404	$2,656,404	$809,625	$2,539,531
Total	276,599,955	166,353,896	166,353,896	166,353,896

Typical Residential Bill Impact

Year	No PTCs	Standard PTC Treatment	Levelized Credit Method	Victor Method
2019	$1.60	$0.63	$1.21	$0.75
2020	$3.80	$1.62	$2.91	$1.70
2021	$5.91	$2.02	$4.39	$2.55
2022	$5.47	$1.54	$3.95	$2.43
2023	$5.18	$1.21	$3.66	$2.39
2024	$4.97	$0.98	$3.45	$2.41
2025	$4.60	$0.58	$3.07	$2.21
2026	$4.44	$0.84	$2.90	$2.19
2027	$4.34	$1.25	$2.80	$2.22
2028	$4.24	$1.14	$2.70	$2.25
2029	$4.18	$1.17	$2.61	$2.30
2030	$4.07	$2.31	$2.50	$2.33
2031	$3.95	$3.95	$2.39	$2.35
2032	$3.83	$3.83	$2.27	$2.37
2033	$3.73	$3.73	$2.16	$2.40
2034	$3.61	$3.61	$2.05	$2.43
2035	$3.49	$3.49	$1.93	$2.45
2036	$3.37	$3.37	$1.81	$2.46
2037	$3.26	$3.26	$1.71	$2.49
2038	$3.15	$3.15	$1.59	$2.51
2039	$2.82	$2.82	$1.27	$2.31
2040	$2.56	$2.56	$1.03	$2.16
2041	$2.40	$2.40	$1.03	$2.10
2042	$2.09	$2.09	$0.87	$1.89
2043	$1.46	$1.46	$0.25	$1.33
2044	$1.20	$1.20	$0.09	$1.11
2045	$0.88	$0.88	$0.27	$0.84