



2302 Great N. Drive
Fargo, North Dakota 58102
(701) 241-8632
dave.sederquist@xcelenergy.com

October 26, 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: 2019 ELECTRIC EARNINGS SHARING REFUND
CASE NOS. PU-18-155 AND PU-20-185

Dear Mr. Kahl:

On June 30, 2020 Northern States Power Company, doing business as Xcel Energy, submitted a request of the Commission to approve a one-time waiver of the Automatic Adjustment Clause rules to allow the Company to use its Fuel Cost Rider (FCR) to pass \$27,291 in 2019 earnings-sharing proceeds to North Dakota customers, as required by Settlement in Case No. PU-18-155. The Company had previously reported a weather-normalized Return on Equity (ROE) of 9.86 percent in 2019. This was just one basis point (0.01 percent) above the earnings cap of 9.85 percent agreed to in the Settlement, triggering the small refund.

Since that time, Staff has reviewed our earnings report, weather-normalization process, and earnings -sharing calculation. In providing responses to their informational requests, the Company has conducted its own further review of its *2019 Annual Report of Regulated Electric Earnings*. Through that review, we discovered an error in the amount of purchased energy expenses included in the report. The error is significant enough to warrant a refile of the *2019 Annual Report*, which the Company expects to do by mid-November.

With this filing, the Company seeks to:

1. Withdraw our request for a waiver of the Automatic Adjustment Clause rules, and

2. Notify the Commission that its 2019 weather-normalized electric ROE was, in fact, lower than the earnings-sharing threshold of 9.85 percent and thus no refund is in order.

Revision of 2019 Weather-Normalized Earnings

In its *2019 Annual Report of Regulated Electric Earnings* filed in May 2020, the Company reported weather-normalized earnings of 9.86 percent ROE. However, in compiling its North Dakota Production Expense for 2019, the allocable costs - \$3.5 million - of all solar power purchase agreements (PPAs) were inadvertently omitted. The impact of the omission was to overstate weather-normalized ROE by about 76 basis points (0.76 percent)¹. Had the solar PPA costs been included in the calculation, 2019 earnings would have produced a ROE of or near 9.10 percent, well below the earnings-share threshold of 9.85 percent.

Given that the newly revised 2019 earnings did not exceed the threshold, there is no basis for a customer refund. Therefore, the Company wishes to withdraw its June 30 request for a one-time variance of the Automatic Adjustment Clause rules. Such a variance would have made it possible to use the FCR to pass on to customers what was previously believed to be a \$27,291 refund.

Earnings Sharing Provision

In addition to providing this update on the Company's 2019 weather-normalized electric earnings, we would like to briefly summarize a difference in the Staff's and Company's interpretation of the current Settlement provision relating to the earnings-share methodology. This difference has come to light through our recent discussions with Advocacy Staff during the discovery phase of this proceeding.

Advocacy Staff Position

Staff contends that, in 2019, Xcel Energy should have excluded the costs of the 22 wind and solar PPAs that were disallowed by the Commission for recovery through the FCR. The 22 PPAs include 15 Community-Based Energy Development (CBED) wind projects and 2 solar small projects that were excluded from FCR recovery as part of the *Revised Second Amended Settlement* in the Company's last rate case (Case No. PU-12-813). The 22 PPAs also include 5 additional solar projects that were subsequently denied inclusion in the FCR through more recent ADP orders and/or FCR reviews.

The costs of the 22 renewable PPAs that were not recovered through the FCR in 2019 total \$2,834,194.

¹ The ROE impact indicated here may be immaterially revised upon full completion of the corrected *2019 Annual Report of Regulated Electric Earnings*, which the Company plans to submit by mid-November.

Company Position

The Company believes inclusion of these PPA costs in calculating rates is appropriate and consistent with past precedent and Commission Orders. In its annual earnings calculations since 2016, the Company has included *all* of these PPA costs, including the amounts not recovered from North Dakota customers during the given year. The Company's methodology has been based on the previous series of three Settlements that required earnings sharing during the years 2016, 2017, 2019, and 2020. Section A.2 of the *Revised Second Amended Settlement* in Case No. PU-12-813, defined the terms of the earnings-share provision, including how FCR disallowances were to be treated, as follows:

To ensure rates are appropriately set under the Rate Plan, the Parties agree to establish an earning sharing mechanism to share with customers any weather-normalized earnings above the ROE agreed to in this Revised Second Amended Settlement. The earnings sharing mechanism requires that in the event the Company's annual weather-normalized earnings exceed the agreed to ROE in this Revised Second Amended Settlement described in Section I.A.3, the Company will refund to customers 50 percent of any weather-normalized revenue earned in excess of its authorized ROE for a particular year of the Rate Plan.

The earnings sharing framework is asymmetrical; customers will not be charged for earnings below the authorized level. The Parties further agree that, in 2016, the calculation of weather-normalized earnings for the purposes of the revenue sharing mechanism shall account for the impact to the Company's overall earnings of the costs of any power purchase agreement for which the Company has agreed, or which the Commission has ordered, be excluded from the calculation of the Company's Fuel Cost Rider mechanism (FCR), either in whole or in part and such costs are not recovered in another jurisdiction.

Consistent with this language, when we reported weather-normalized earnings for 2016, we accounted for the cost impact of the CBED wind and solar PPAs that were not fully recovered through the FCR.

In February 2016, the rate moratorium and earnings-share provision were subsequently extended to 2017 in Section V.A of the *First Revised Negotiated Agreement* in the same docket (Case No. PU-12-813), which read:

Extension of Case Moratorium. In the Rate Settlement the Company agreed to a moratorium for further rate adjustments until 2017. To provide sufficient time for the Commission to consider the Company's RTF during 2017, the Company commits to extend this rate case moratorium one additional year. To that end, the Company may not increase base rates - on an interim or permanent basis—prior to January 1, 2018. To ensure that rates remain just and reasonable during 2017, in the event that the Company's annual weather-normalized earnings exceed a

10.25 percent return on equity during 2017, the Company will refund to customers one hundred percent (100%) of any weather-normalized revenue associated with the excess earnings.

Again, consistent with this language and that of the *Revised Second Amended Settlement*, when the Company reported weather-normalized earnings for 2017 and 2018,² we accounted for the cost impacts of the CBED wind and solar PPAs that were not fully recovered through the FCR. The Company issued a refund of just under \$3.0 million based on 2017 weather-normalized earnings.

Finally, in February 2019 the Settlement approved in the Commission's investigation of the impact on Xcel Energy of the Tax Cuts and Jobs Act (TCJA) (Case No. PU-18-155) contained a rate moratorium and earnings-share mechanism for the 2019 and 2020 calendar years, which the Company considered to be an arrangement similar to and consistent with the previous two Settlements between Staff and the Company. Section B.3 of the *TCJA Settlement Agreement* states:

The Parties recognize that it is necessary to protect customers from uncertainties inherent in the Company's forecasts. Additionally, the Parties recognize today's significantly different financial environment from that when the Company's current authorized return on equity (ROE) was approved by the Commission. Therefore, the Parties agree to establish an earnings sharing mechanism at a materially lower ROE to ensure rates remain just and reasonable during the Moratorium Period.

Specifically, in the event the Company's annual weather-normalized earnings during any of the fiscal years during the Moratorium Period exceed an ROE of 9.85 percent (40 basis points below the current Commission-authorized ROE), the Company will refund to customers 100 percent of the weather-normalized revenue contributing to the excess earnings. The earnings sharing framework is asymmetrical; customers will not be charged for weather-normalized earnings below 9.85 percent. Earnings sharing refunds will be executed in July of the following year.

Consistent with these three agreements and our prior practice, when the Company reported weather-normalized earnings for 2019, it again accounted for the cost impacts of the 15 disallowed CBED wind PPAs (and, as corrected with this petition, the 7 disallowed solar PPAs³) that were not fully recovered through the FCR.

² The earnings-share provision of the *Revised Second Amended Settlement* was not in effect in 2018, but the Company maintained the earnings calculation methodology used in prior years for consistency. The Company did, however, issue a \$9.8 million TCJA refund reflecting an estimate of the TCJA tax benefits realized in 2018.

³ It should be noted that in addition to the 7 disputed solar PPAs, the Company also omitted the proxy-priced costs (using market LMP prices) to source North Dakota energy consumption from the Company's "Community Solar Gardens" (CSG) program. The Company has been voluntarily proxy-pricing CSG energy in North Dakota given that the program is a Minnesota-based offering.

Conclusion

As in previous years, in its calculation of 2019 weather-normalized earnings the Company intended to include the North Dakota allocation of all PPA costs associated with wind and solar energy projects disallowed from FCR recovery. However, all solar PPA costs were inadvertently excluded from the *2019 Annual Report of Regulated Earnings*. As a result, the Company's weather-normalized earnings were overstated to the point of generating a small refund. With this filing we notify the Commission that we will be submitting a corrected *2019 Annual Report of Regulated Earnings* by mid-November which will indicate a more accurate ROE of or near 9.10 percent, below the earnings-share threshold of 9.85 percent.

Therefore, the Company withdraws its request for a one-time variance in the Automatic Adjustment Clause rules to provide an earnings-share refund mechanism.

Sincerely,



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