
SUPPLEMENTAL STAFF MEMORANDUM SUPPORTING SETTLEMENT STIPULATION

TO: COMMISSIONERS AND ADVISORS
FROM: BRITTANY MEHLHAFF, PATRICK STEFFENSEN, KRISTEN EDWARDS, AND AMANDA REISS
RE: DOCKET GE17-003 – IN THE MATTER OF STAFF’S REQUEST TO INVESTIGATE THE EFFECTS OF THE TAX CUTS AND JOBS ACT ON SOUTH DAKOTA UTILITIES
DATE: JULY 6, 2018

BACKGROUND

On July 5, 2018, Commission Staff (Staff) filed its Memorandum in support of the June 25, 2018 Settlement Stipulation (Stipulation), between Staff and Northern States Power Company dba Xcel Energy (Xcel or the Company) in the above-captioned matter.

Due to recent press coverage, Staff provides this Supplemental Memorandum to provide additional clarity regarding certain terms of the Stipulation. While Staff aimed to provide all information in its initial Memorandum publicly, some additional confidential material may be beneficial for Commission review of the Stipulation and thus is provided in this Supplemental Memorandum.

TAX SAVINGS IN 2019 AND 2020

An article on Dakota Free Press blog states: “Xcel proposes to refund its customers \$10,868,000...[t]his is one-time money; Xcel will not calculate and remit tax savings in 2019 or 2020.” While this statement is certainly true in that Xcel will not calculate a refund to customers in 2019 or 2020 under the terms of the Stipulation, Staff desires to make it clear that Xcel customers will in fact receive the benefits for the tax savings in 2019 and 2020. If Xcel was required to refund to customers the tax savings in 2019 and 2020, Xcel’s resulting revenue deficiency would require it to file for a rate increase to be effective in 2019. The net impact of the tax savings and expected deficiency in 2019 would result in a net increase to customer rates. Therefore, pursuant to the terms of the Stipulation, customers are better off than if Xcel was required to continue refunding the tax savings in 2019 and 2020 because rates will remain static rather than increasing.

The table below demonstrates that Xcel’s projected revenue deficiencies, assuming a continued refund of the tax savings to customers in 2019 and 2020, are greater than the annual tax savings amount of approximately \$10.9 million. Since the Stipulation allows for Xcel to retain the benefits of the TCJA in 2019 and 2020, Xcel is able to forego filing for a rate case even though it will still have a deficiency in those years. The revenue deficiencies are estimated based on the Company’s previously authorized return on equity of **[Begin Confidential] [End Confidential]** and typical South Dakota ratemaking principles. Therefore, Staff believes the revenue deficiencies provide a conservative view.

[Begin Confidential]

[End Confidential]

Staff realizes the revenue deficiency in 2018 also exceeds the TCJA refund amount. However, given the Company had not filed for a rate increase prior to January 1, 2018 when the TCJA became effective, based on a typical filing date of June 30th, the earliest Xcel would have increased rates is January 1, 2019. Therefore, the Company agreed it was appropriate to refund the 2018 amount.

EARNINGS SHARING MECHANISM

In Staff's view, the earnings sharing mechanism is in place only as an added protection for customers. Given the forecasted revenue deficiency information reviewed by Staff, it appears unlikely the earnings sharing mechanism will even come into play. However, given there is always uncertainty in forecasts, Staff pursued additional protections for customers in the event the Company's earnings exceed the current forecasted levels. The earnings sharing mechanism agreed to in Docket EL14-058 shares any earnings which exceed a **[Begin Confidential] [End Confidential]** return on equity, 50% to customers and 50% to shareholders each year. Staff desired to place a cap on the return on equity, thus the Company agreed to refund 100% of any earnings over a 10% return on equity to customers each year.

RECOMMENDATION

Staff recommends the Commission grant the Joint Motion for Approval of Settlement Stipulation and adopt the Settlement Stipulation without modification.