

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger
Nancy Lange
Dan Lipschultz
Matthew Schuerger
John A. Tuma

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of Xcel Energy's 2016–2030
Integrated Resource Plan

ISSUE DATE: April 15, 2016

DOCKET NO. E-002/RP-15-21

In the Matter of the Application of
Northern States Power Company for Authority
to Increase Rates for Electric Service in the
State of Minnesota

DOCKET NO. E-002/GR-15-826

ORDER ASKING COMMISSIONER
OF COMMERCE TO SEEK
FUNDING FOR SPECIALIZED
TECHNICAL PROFESSIONAL
INVESTIGATIVE SERVICES UNDER
MINN. STAT. § 216B.62, SUBD. 8

PROCEDURAL HISTORY

On January 6, 2016, the Commission issued an order in the resource-plan docket listed above requiring Xcel Energy (Xcel or the Company) to make a supplemental filing by January 29 detailing and analyzing the impact of major changes it proposed to make to its 2016-2030 resource plan. These changes consisted mainly of Company proposals to shut down two baseload, coal-fired power units (Sherco 1 and Sherco 2) before normal retirement and to replace their generation with wind, solar, and natural-gas generation.

The order recognized that changes of this magnitude required comprehensive factual development and analysis, potentially burdening resource-constrained parties already involved in the Company's ongoing rate case. It therefore declined to set a revised procedural schedule for the resource-planning docket, pending review of the Company's supplemental filing by the Department of Commerce (the Department) and receipt of that agency's procedural recommendations:

The Commission acknowledges the resource constraints that affect many of the parties to this proceeding, particularly in light of Xcel's pending electric rate case. For this reason, the Commission will defer establishing a specific timeline for reply comments until the Department has had an opportunity to review Xcel's supplemental filing and recommend a comment schedule.¹

¹ *Order Requiring Supplemental Filing*, docket E-002/RP-15-21, at 3.

The Company made its supplemental filing on January 29. On February 29, after conducting discovery and holding discussions with the Company, the Department filed its review and procedural recommendations.

The agency recommended initial and reply comment due dates. It also stated that certain cost issues regarding the Prairie Island nuclear plant, arising in both the resource-plan and rate-case dockets, required specialized technical expertise beyond that currently available to the agency in-house. The Department therefore recommended that the Commission ask it to seek authority from the Commissioner of Management and Budget to incur costs for specialized technical professional investigative services under Minn. Stat. § 216B.62, subd. 8, to investigate those issues.

On March 3, the Commission issued a notice adopting the comment schedule recommended by the Department. On March 21, 2016, the Company filed a letter stating it did not object to the Department's recommendation to seek funding from the Commissioner of Management and Budget to retain outside technical expertise to assist in the agency's analysis of Prairie Island cost issues.

On March 31, 2016, that recommendation came before the Commission.

FINDINGS AND CONCLUSIONS

I. Factual Background

The Prairie Island nuclear plant generates some 20% of the electricity sold by Xcel in the Upper Midwest, and the Company's plans to shut down the two coal-fired plants and replace them with less carbon-intensive generation rest on the assumption that the nuclear plant will continue to operate until the end of its licensure in 2034. The costs of operating Prairie Island until 2034 are therefore critical to analyzing the cost and rate implications of closing Sherco units 1 and 2 and replacing their generation, as well as to the standard resource-planning tasks of analyzing the size, type, and timing of the new resources required to meet need over the planning period.

The costs of operating Prairie Island until 2034, however, are hard to project. Capital costs—most incurred as part of the Life Cycle Management Project, which repairs, replaces, and upgrades aging plant equipment—are projected by the Company to exceed earlier estimates by \$600,000,000 to \$900,000,000 between 2021 and 2034. These increases are in addition to substantial capital-cost increases projected in earlier filings, and are also in addition to current capital-cost overruns, which Xcel maintains are offset by lower-than-anticipated operational and maintenance costs.

These large capital-cost increases are also an issue in the ongoing rate case, where the Commission has cited resource-plan filings as linked with rate-case filings and has asked the parties to develop cost-increase issues common to both dockets:

1. Whether, in light of the following factors, the amounts authorized for cost recovery in the 2016 test year and the 2017 and 2018 plan years should be considered provisional or placeholder amounts until the Commission makes a determination on the prudence of the Life Cycle Management costs at the Prairie Island plant:

- a. Xcel's pending submission of a Nuclear Scope Study in its January 29, 2016 supplemental comments in its resource plan, docket E-002/RP-15-21; and
- b. The possibility that there will not be adequate time to fully investigate and determine the prudence of these costs in this rate case.²

Similarly, in the rate case the Commission has required the Company to file comparisons between its test-year Prairie Island capital costs and its resource-plan Prairie Island capital costs:

3. On or before January 29, 2016, the Company shall file supplemental schedules and testimony that:
 - a. Describe and compare projected and actual Life Cycle Management costs (and, to the extent relevant, Extended Power Uprate costs) from 2008 through 2020 by generating unit and year, including the proposed 2016 test year in this rate case, and the 2017 and 2018 plan years. The descriptions and comparisons should include all changes and updates to projected costs from 2008 on and should include all cites to relevant certificate of need, resource plan, and general rate case dockets.
 - b. Compare the relevant parts of the proposed 2016 test year, the 2017 plan year, and the 2018 plan year to the proposed five-year capital budget in the Company's pending resource plan, docket E-002/RP-15-21.³

II. Commission Action

The Commission concurs with the Department and the Company that thorough analysis of all projected Prairie Island costs is critical to a fair and reasonable outcome in both the resource-plan and rate-case dockets. In the resource-plan case, determining the probable level of these costs is critical to determining the most cost-effective resource mix for Xcel through 2034, including the most reasonable role in that mix for Sherco 1 and Sherco 2. In the general rate-case docket, determining the probable level, prudence, and reasonableness of these costs is critical to setting just and reasonable rates.

The Commission will therefore ask the Commissioner of Commerce to seek authority from the Commissioner of Management and Budget to incur costs for specialized technical professional investigative services under Minn. Stat. § 216B.62, subd. 8, to investigate and verify the statements made by Xcel concerning Xcel's Prairie Island projected costs. The costs for the technical assistance are assessed to the utility.

² *In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E-002/GR-15-826, Notice of and Order for Hearing (December 22, 2015) at 3.

³ *Id.* at 8.

To ensure that no other party to the rate case—whose service list was not notified of the Department’s request—is deprived of an opportunity to object to it, the Commission will direct the Executive Secretary to send notice of the request to the rate-case parties and to give them an opportunity to object.

Finally, the Executive Secretary will have the authority to appropriately allocate and assess the costs of the technical expertise retained by the Department between the resource-plan and the general-rate-case dockets.

ORDER

1. The Commission asks the Commissioner of Commerce to seek authority from the Commissioner of Management and Budget to incur costs for specialized technical professional investigative services under Minn. Stat. § 216B.62, subd. 8, to investigate and verify the statements made by Xcel concerning Xcel’s Prairie Island projected costs.
2. This order shall become effective immediately.

BY ORDER OF THE COMMISSION

Daniel P. Wolf
Executive Secretary



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