

June 15, 2021

**PUBLIC DOCUMENT**

Mr. Will Seuffert  
Executive Secretary  
Minnesota Public Utilities Commission  
121 Seventh Place East, Suite 350  
St. Paul, Minnesota 55101

RE: **PUBLIC Response Comments of the Minnesota Department of Commerce, Division of Energy Resources**  
Docket No. E,G002/D-19-723

Dear Mr. Seuffert,

Attached are the response comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matter:

The Petition of Northern States Power Company for the Approval of the 2020 Annual Review of Remaining Lives and Five-Year Depreciation Study.

The petition was filed on August 18, 2020 by:

Laurie J. Wold  
Senior Manager, Capital Asset Accounting  
Xcel Energy  
414 Nicollet Mall, 401 – 3rd Floor  
Minneapolis, MN 55401  
(612) 330-5510

The Department recommends that the Minnesota Public Utilities Commission (Commission) **approve Northern States Power Company's petition, except for issues regarding the Luverne Wind2Battery System.** The Department is available to answer any questions the Commission may have.

Sincerely,

/s/Angela Byrne  
Financial Analyst, CPA

/s/Nancy Campbell  
Financial Analyst Coordinator, CPA

AB/NC/ar  
Attachment



## Before the Minnesota Public Utilities Commission

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### PUBLIC Response Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E,G002/D-19-723

#### I. BACKGROUND

On August 18, 2020, Xcel Energy (Xcel or the Company) filed its 2020 Annual Review of Remaining Lives Petition (Petition) with the Commission. The Petition outlined the proposed remaining lives, salvage rates, and depreciation rates for the Company's electric and natural gas production facilities and gas storage facilities. The Petition also provided information on the progress of and cost estimates for the removal of four of Xcel's retired facilities. The Company requests approval of the following in its Petition:

- an increase of depreciation and amortization of approximately \$2.5 million for existing assets;
- a two-year passage of time adjustment for all natural gas and electric production and gas storage facilities, with noted exceptions;
- modifications to the remaining lives for the Wescott Gas Storage facility and the Luverne Wind2Battery System;
- initial remaining lives and net salvage rates for the Blazing Star II, Crowned Ridge, Freeborn, and Dakota Range wind projects;
- initial remaining lives and net salvage rates for the recently acquired Community Wind North and Jeffers Wind projects (approved in Docket No. E002/M-18-777), and the Mower Wind project (approved in Docket No. E002/M-19-553);
- reserve reallocations to certain Steam and Other Production accounts; and
- updates to the net salvage rates for electric and natural gas production and gas storage facilities based on a new 5-year Dismantling Study.

The Company seeks an effective date of January 1, 2021 for the remaining lives and net salvage rates proposed in its Petition. This proposed effective date represents two years of passage of time from the previously approved depreciation rates, rather than the customary one year. On page 2 of its Petition, Xcel stated, "this Docket may or may not be ordered upon before the next typically scheduled filing date of mid-February 2021. Therefore, we have also provided detail of wind projects and other assets being in-serviced during 2021 for your consideration if the Commission were to delay or cancel the 2021 filing date."

On February 16, 2021, the Department filed comments (Comments) that provided the following requests from Xcel in Reply Comments:

- an explanation of, and calculations showing, how the Company incorporated the decrease in 2019 production depreciation expense into its 2019 Capital True-Up Report calculation. Xcel's discussion should provide additional explanation if 2019 actual depreciation expense differed from approved rates by more than \$1 million;
- reference cites to the Company's initial rate case Direct Testimony requesting additional cost recovery for its Wind2Battery system, from a total of \$3.5 million to \$4.1 million, and the subsequent Ordering Point(s) that allowed such recovery;
- the initial contract operating term with Minwind Energy for the Wind2Battery system. If the term was different from the 15-year useful life of the battery, the Company should explain why. Additionally, Xcel should explain whether a cancelation clause existed in the contract in order to protect against early obsolescence of the pilot program, and if not, why not;
- why it appears that the Company did not file any discussion regarding the potential for removal costs for the Wind2Battery System between initial representations from the manufacturer in 2011 and the sale of the Minwind Energy wind farm in 2019. The Wind2Battery System was not included in its 5-year dismantling study filed in 2015;
- its plan to file information to the Commission regarding the results of the Wind2Battery research project and any revenues/income from the project not previously disclosed, including which docket(s) it will be filed in and on what timeline. If the Company has already filed this information, the explanation should include specific cites to docket numbers and filing dates;
- an update on the in-service date of each wind facility: Blazing Star II, Crowned Ridge, Dakota Range, and Freeborn;
- an update on the anticipated purchase/in-service dates for Community Wind North, Jeffers Wind, and Mower Wind. The update should also include estimated (or actual if available) total project cost for each of the three wind farms;
- the impact of Mower Wind on depreciation rates for the year 2021;
- an update on removal costs for Black Dog Units 3 and 4 and Minnesota Valley as of the beginning of 2021. The updates may be estimated for part of the year, but the nature of the estimate should be explained;

Additionally, the Department recommended that the Commission take the following actions:

- approve a two-year passage of time adjustment for all natural gas and electric production and gas storage facilities, except for the Luverne Wind2Battery System and the Wescott Gas Storage facility;
- approve the proposed increase in the remaining life of certain components of the Wescott Gas Storage facility to 12 years;
- approve Xcel's proposed changes in net salvage rates, except as noted for the Wind2Battery System;

- approve the Company's proposed initial remaining lives of 25 years and net salvage rates of 10.5 percent for the Blazing Star II, Crowned Ridge, Freeborn, and Dakota Range wind farms, as of the actual in-service dates for each facility;
- approve Xcel's proposal to reallocate accumulated production reserve balances, mainly from the Minnesota Valley plant, to Black Dog plant for dismantling costs;
- require Xcel to continue to provide in future depreciation filings a comparison of depreciation remaining lives and resource planning lives for electric production with an explanation of any differences;
- require Xcel to continue to provide in future depreciation filings a historical comparison of changes in remaining lives and net salvage rates;
- require Xcel to provide in in future depreciation filings a supplemental schedule showing the total (in addition to the remaining) depreciable lives of the Company's electric production facilities;
- require Xcel to continue to provide in future depreciation filings updates on the removal costs for the Minnesota Valley Plant, Key City Plant, Granite City Plant, and Black Dog Units 3-4, including the impact on depreciation reserves and a final true-up when the retirement/removal is completed, until retirement/removal is complete;
- require Xcel to provide in its next depreciation filing a supplemental schedule with the (1) actual costs to date, (2) projected future costs, and (3) percentage of completion to date for the Minnesota Valley Plant, Key City Plant, Granite City Plant, and Black Dog Units 3-4 as applicable;

The Department noted that it would withhold its recommendation on whether the Company's reserve reallocation proposal for the Wind2Battery removal costs is reasonable until after reviewing Xcel's reply comments. The Department noted that it would also provide updated and additional recommendations regarding the remaining outstanding requests after reviewing Xcel's reply comments.

Finally, the Department emphasized that the Commission's determination in depreciation proceedings are for accounting purposes only and are not a determination for purposes of rates.

On March 29, 2021, Xcel filed Reply Comments, which addressed the comments of the Department and Office of the Attorney General – Residential Utilities Division (OAG-RUD).

## **II. DEPARTMENT ANALYSIS**

The Department appreciates the detailed Reply Comments of the Company, and notes that all issues have been resolved between the Company and the Department, except for issues regarding the Luverne Wind2Battery System. The Department further addresses the issues regarding the Luverne Wind2Battery System in these response comments.

The Department agrees with Xcel that the \$4.1 million was reviewed by the Department and approved in Xcel's 2010 rate case, as discussed on page 6 of Xcel's reply comments. However, as discussed in the Department's comments, there is currently a \$0.9 million remaining net book value which is no longer used and useful for purposes of providing electric services. Xcel noted in its Petition and Reply Comments that the purchase power agreement was terminated as a result of bankruptcy of Minwind and resulting sale of the wind facilities to which the battery was connected to a third party. Xcel also noted that due to the age of the battery, it was unable to reconnect the battery in another location. The Department is surprised there was not a clause in the contract that would require the new third party purchaser of the wind facilities to continue to allow Xcel to use the Wind2Battery System. As a result of the Wind2Battery no longer being useful for providing electric service, being dormant for the past two years, and because it appears that Xcel should have addressed this risk of sale to a third party in their contract, the Department recommends the \$0.9 million remaining net book value be written off as required by generally accepted accounting principles.

Both the Department and the OAG-RUD have significant concerns about Xcel's proposal to pay for \$5.6 million in removal costs for the Wind2Battery System by reallocating and using accumulated depreciation reserve collected for other plants. As noted above, Xcel received approval for the \$4.1 million cost of the Wind2Battery System, but Xcel has never requested, or received approval for, any removal costs. The Department considers it very concerning that Xcel has neither requested nor collected any removal costs over the life of the battery. Removal costs should be collected from ratepayers over the life of the plant to ensure those who benefit pay for removal costs. Xcel did a 5-year dismantling study on May 18, 2015 in Docket No. E,G002/D-15-46 but did not include any removal costs for the Wind2Battery System in that study.

The Department is also very concerned about the large amount of the costs of removal for the Wind2Battery System of \$5.6 million, which is higher than the total installation costs of \$4.1 million. The Department notes that Xcel has not received approval for the removal costs for the Wind2Battery System, despite it being in service since 2009. Xcel claims to have relied on the battery manufacture NGK Insulators (NGK), but Xcel's statement from its 2008 contract with NGK does not support an expectation of zero removal costs; it simply stated that NGK will bill the Company for disposal costs. Specifically, on page 7 of its Reply Comments, Xcel cited the following from the 2008 contract:

Upon notification from [NSP] that the goods and/or services have reached end of life (NGK) agrees to dispose of the goods and/or services. Supplier shall invoice the Company for fees related to such disposal, at its cost, which may be verify [sic] by Company at Company's discretion.

Additionally, Xcel on page 8 of its reply comments cited the following from the December 2011 Renewable Development Fund Report:

The report stated, **[TRADE SECRET DATA HAS BEEN EXCISED]**.

The Department does not consider these two statements cited by Xcel, one from the 2008 Contract with NGK and the other from the December 2011 Renewable Development Fund Report, to support that the expected removal costs for the Wind2Battery System at the time of installation would be zero. As a result, it was unreasonable for Xcel to have not collected any removal costs over the life of the Wind2Battery System (thirteen years).

As a result of Xcel's failure to request recovery of removal costs over the life of Wind2Battery System, the Company not properly studying and addressing the removal costs in its 2015 five-year dismantling study, the significance of the removal costs being greater than the original costs of the Wind2Battery System, and Xcel's citations from the 2008 contract with NGK and the December 2011 Renewable Development Fund not supporting Xcel's claim that the costs were expected to be zero, the Department recommends that Xcel's request for removal costs of \$5.6 million for the Wind2Battery System be denied.

### **III. DEPARTMENT RECOMMENDATIONS**

As a result of the Wind2Battery no longer being useful for providing electric service, being dormant for the past two years, and because it appears that Xcel should have addressed this risk of sale to a third party in their contract, the Department recommends the \$0.9 million remaining net book value be written off as required by generally accepted accounting principles.

As a result of Xcel not timely requesting recovery of removal costs over the life of Wind2Battery System, not properly studying and addressing the removal costs in its 2015 five-year dismantling study, the significance of the removal costs being even greater than the original costs of the Wind2Battery System, and Xcel citations from the 2008 contract with NGK and the December 2011 Renewable Development Fund not supporting Xcel's claim that the costs were expected to be zero, the Department recommends that Xcel's request for removal costs of \$5.6 million for the Wind2Battery System be denied.

/ar

## **CERTIFICATE OF SERVICE**

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce  
Public Response Comments**

**Docket No. E, G002/D-19-723**

**Dated this 15<sup>th</sup> day of June 2021**

**/s/Sharon Ferguson**

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