

May 27, 2015

Daniel P. Wolf  
Executive Secretary  
Minnesota Public Utilities Commission  
121 7<sup>th</sup> Place East, Suite 350  
St. Paul, Minnesota 55101-2147

**RE: Xcel Energy Electric Rate Case April 24, 2015 Compliance Filing and Office of the Attorney General, Residential Utilities and Antitrust Division (OAG) Letter**  
Docket No. E002/GR-13-868

Dear Mr. Wolf:

On May 7, 2015, the Minnesota Office of Attorney General, Antitrust and Residential Utilities Division (OAG) filed a letter noting a concern with the proposal by Northern States Power Company, d/b/a Xcel Energy (Xcel) regarding treatment of the higher-than-expected insurance proceeds for capital costs from the Sherco 3 event in the capital true-up in the current rate case.<sup>1</sup> In that letter, the OAG noted that it had requested further information from Xcel and would provide subsequent comments.

On May 22, 2015, the OAG filed additional comments, noting the results of the analysis of additional information. The Minnesota Department of Commerce, Division of Energy Resources (the Department) agrees with the conclusions of the OAG, for the following reasons.

First, as discussed in Ms. Nancy Campbell's testimony in Docket No. E002/GR-12-961, where this issue first surfaced, the overall goal is to treat the insurance proceeds in the same manner as the recovery of capital costs:

...it needs to be clear in this proceeding, that because of the significance of the damage to Sherco Unit 3, most of the costs are capital (rebuild) in nature, including the labor needed to rebuild the unit, rather than O&M (repair). The distinction between capital and O&M costs matters in this instance because *capital costs of the rebuild will likely be included in future rate cases*. If Xcel claims that the insurance proceeds are O&M proceeds, then *the Company would presumably claim that ratepayers would receive none of the insurance proceeds*. Such an argument would be unreasonable. (Direct Testimony, page 18, emphasis added)

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<sup>1</sup> Note that reimbursement for costs of replacement power is discussed in Docket E999/AA-13-599, such as on pages 17-23 for the Department's September 19, 2014 Report and pages 11-13 of the Department's December 31, 2014 Response comments.

In its proposed compliance filing in the instant case, Xcel used a more convoluted approach than hypothesized in Ms. Campbell's testimony noted above, but the results of Xcel's proposal to include insurance proceeds in the Capital Asset True-Up in this case would be the same – ratepayers would continue to pay for the capital costs of the Sherco 3 rebuild but receive none of the insurance proceeds. As Ms. Campbell noted, this result would not be reasonable, especially since ratepayers also pay for insurance costs but would receive none of the insurance proceeds.

Under Xcel's proposal, ratepayers would pay for all of the costs of the Sherco 3 rebuild as costs would be included in Xcel's ratebase, and ratepayers would pay the Company for a return on the assets, depreciation expense, insurance, etc. However, ratepayers would receive no corresponding benefit of insurance proceeds unless that amount is returned to ratepayers. The best way to do so is to include the insurance proceeds as an offset to Xcel's ratebase in this proceeding.

As the OAG noted, on page 23 of the September 3, 2013 Findings of Fact, Conclusions, and Order in Docket No. E002/GR-12-961, the Commission:

...Accept[ed] Xcel's offer to provide a full accounting of repair costs and insurance recovery in its next rate case *to ensure that no repair costs reimbursed by insurance are recovered from ratepayers.* (Emphasis added).

Because Xcel Energy's March 31, 2015 Sherco 3 Compliance Filing at page 4 indicates that the Company recovered a greater amount of insurance proceeds than was anticipated or included in the 13-868 rate case, the Department agrees with the OAG that the over-recovered insurance dollars should be used to reduce the Company's revenue requirement directly, and *not* be part of the 2014 Capital Asset True-Up. If the over-recovered insurance dollars were to become part of the 2014 Capital Asset True-Up, ratepayers would not receive any benefit of the insurance reimbursement that Xcel Energy, in the 12-961 rate case, assured the Commission they would receive.

The Department is disappointed that Xcel is attempting to misconstrue the Capital Asset True-Up to include insurance proceeds as a benefit to Xcel's shareholders rather than ratepayers. The Capital Asset True-Up was designed only to give ratepayers a refund if Xcel spent less on capital costs in 2014 than the Company proposed to recover in rates for 2014, as described in Issue 35 in the October 7, 2014 Issues List:

If the Adjusted Actual 2014 Plant Related Revenue Requirements is lower than the Adjusted Test Year 2014 Plant Related Revenue Requirements, the Company will include the amount in the interim rate refund and the calculation of final rates in 2015.

The basis for the Capital Asset True-Up was to accomplish the requirement of ordering paragraph 29 B of the Commission's June 17, 2013 ORDER ESTABLISHING TERMS, CONDITIONS, AND PROCEDURES FOR MULTIYEAR RATE PLANS, Docket No. E,G-999/M-12-587:

If a project included in a multiyear rate plan is canceled or postponed, [a utility applying for or operating under a multiyear rate plan shall] within 30 days inform the Commission and parties, file a proposal to adjust rates to stop collecting any costs related to the canceled or postponed project, and refund costs already collected.

Xcel's proposal not only does not fit with either the language in the Commission's June 17, 2013 Order or the agreement in Issue 35 noted above, it would result in exactly the outcome the Department sought to avoid in the 12-961 rate case and would not meet the goal identified in the Commission's Order in that proceeding: "to ensure that no repair costs reimbursed by insurance are recovered from ratepayers."

As a result, the Department recommends that the Commission require Xcel to apply the insurance proceeds against its rate base in this proceeding.

Sincerely,

/s/ DALE V. LUSTI  
Financial Analyst  
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DVL/lt