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**PUBLIC DOCUMENT: TRADE
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—PUBLIC DATA—**

February 3, 2015

—VIA ELECTRONIC FILING—

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101

RE: COMMENTS
AUTHORITY TO INCREASE ELECTRIC RATES
DOCKET NO. E002/GR-13-868

Dear Mr. Wolf:

Northern States Power Company, doing business as Xcel Energy, submits the following in response to the Minnesota Public Utilities Commission *Notice of Comment Period* issued on January 27, 2015. We provide below factual background regarding the dispute between Xcel Energy and Babcock & Wilcox Nuclear Energy, Inc. (BWNE), and also address the topics identified for comment in the Commission's *Notice*.

Background

The Company filed the current rate case on November 4, 2013 and included a full year of revenue requirements associated with the Prairie Island Replacement Steam Generator (RSG) in its 2014 test year. The purpose of the RSG replacement was to replace the two Unit 2 steam generators with new steam generators. This is a critical project for ensuring that Prairie Island Nuclear Generating Unit 2 will continue to provide our customers with safe, carbon-free energy for the remainder of the plant's extended life. This project was similar to the effort we undertook at Unit 1 in 2004.

After issuing a request for proposal, we selected SNC-Lavalin Nuclear (USA) Inc. (SNC-Lavalin) as the primary contractor. SNC-Lavalin engaged BWNE as its subcontractor to perform most of the installation work. Although performance issues

with BWNE arose at the outset, we worked with SNC-Lavalin and BWNE to minimize any delays. The RSG project was completed and placed in service in December 2013. The new steam generator has been in use since it was placed in service.

On January 20, 2014, the Company received invoices related to the RSG project from SNC-Lavalin, which did not include invoices from the subcontractor BWNE. As reflected in the Company's Answer to the Complaint, SNC-Lavalin did not forward any BWNE invoices to Xcel Energy from January 2014 through mid-May 2014. SNC-Lavalin first started submitting invoices for work performed by BWNE around that time. We have continued to receive invoices through mid-October 2014.

After receiving the majority of invoices, the Company tried to resolve the disputed issues with SNC-Lavalin and BWNE. We met with these parties throughout the late summer and fall of 2014 to address the issues, but were unable to reach agreement. BWNE filed its Complaint on November 12, 2014. We filed our Answer on December 2, 2014.

Topics for Comment

Prior to addressing the specific topics that are the subject of the Notice, we first respond to the OAG's concerns that we did not advise the Commission or our stakeholders of our dispute with BWNE. We note that for a significant portion of the discovery period, we had not even received invoices from BWNE. In fact, we responded to a discovery question from the Chamber of Commerce in May indicating that we had not received all invoices for the project. Since the Company could not begin any analysis of whether to pay or reject an invoice until it received them,

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As we described in our Answer, we did have concerns about vendor performance and the amount owed. We fully anticipated these concerns to be addressed through the normal course of dispute resolution discussions post receipt of final bills. The Company pursued informal dispute resolution through the summer and fall and was trying to reach a constructive outcome. It was not until BWNE filed a lawsuit in November, which was two months after the evidentiary hearings had concluded, that we had an indication that our efforts to resolve the dispute had hit an impasse.

1. Procedural Guidance

a. Variations in Capital Costs can be Addressed in True-Up Process

The OAG has proposed three procedural options to address the issues raised by the BWNE Complaint. The first option would find that the Company did not support its request to include any portion of the disputed amount in 2014 final rates. While we appreciate the OAG's suggestion, as well as its willingness to allow us to first provide more information, we do not support the first option.

At the outset, we note there is rarely perfect matching between test year costs and actual results. The amounts in our test year rate base are **[TRADE SECRET BEGINS**

TRADE SECRET ENDS] As a result, when using a forward looking test-year, many circumstances can arise that can cause a forecast to deviate – upward or downward – from actual costs. In certain situations the actual deviation may not be known right away or for some time.

Billing disputes with a vendor, such as this one, are just one example. Public policy should encourage the Company to administer contracts in a manner that benefits customers. The Company does not believe that **[TRADE SECRET BEGINS**

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The OAG's second option would result in an additional fact-finding on this issue in the current case or by opening a new docket. In addition to the reasons cited above, the dispute between the Company and BWNE is now pending in district court. BWNE is alleging misrepresentations before regulatory bodies, which we deny, to leverage its litigation position. A separate regulatory investigation could complicate efforts to prosecute our litigation, which if a favorable resolution is reached will result in our customers benefitting. We believe the OAG appreciates this fact, and for these reasons believe the judicial process should be allowed to proceed. To the extent the Commission or our stakeholders want to be kept abreast of our litigation efforts, we are willing to provide updates.

The last option would incorporate the disputed amount into the 2014 Plant Related Revenue Requirement True-Up process (2014 Capital True-Up). The Company is willing to agree to take this issue up in the context of the 2014 Capital True-Up process. Since there is a true-up process available, we believe we can include the effect of the RSG disputed costs as part of a holistic view of our overall capital costs. As part of presenting our 2014 Capital True-Up, the Company was planning on explaining whether a refund was needed to align forecasted and actual capital additions in the 2014 test year. The Company can include the RSG disputed costs into this assessment. We believe using the 2014 Capital True-Up process allows for the appropriate balance to be struck in the unique situation presented here (*i.e.*, the availability of a true-up process) while also allowing the Company to pursue its litigation efforts.

2. Response to OAG Information Requests

The Company and the OAG had numerous discussions regarding the timing of our response to the OAG information requests and what information could be provided given that litigation was pending. In addition, the Company noted that many of the OAG's information requests did not relate to the BWNE Complaint and, since the evidentiary process was closed, were untimely. Nonetheless, the Company did provide responses to the majority of questions presented.

However, as noted in response to OAG IR 642, we object to OAG's request for copies of the contracts. The issue in front of the Commission is how to address the costs for the RSG project – currently in-service and performing as expected – in our 2014 and 2015 rates. Any request for the contracts would go to the merits of our costs and is untimely. In addition, the contracts are subject to confidentiality provisions that create certain limits on their disclosure. We made a mitigating offer to the OAG as a means of resolving their concerns, but maintained that the interpretation of these contracts and the current dispute between the Company and BWNE is being litigated in district court.

In conclusion, the issue of the BWNE complaint is unusual in the context of a rate case. We want to achieve a constructive outcome in the litigation and in the pending rate case. While we believe there is a path by which the Commission could reject further consideration of this issue, we believe agreeing to incorporate this issue in the 2014 Capital True-Up process allows the parties, and Commission, to focus on the

issues litigated in the evidentiary hearings and the Company to concentrate on litigating its dispute with BWNE.

We appreciate the opportunity to provide these Comments to the Commission and have electronically filed this document, and copies have been served on the parties on the attached service list.

Portions of this filing have been marked as trade secret consistent with Minn. Stat. § 13.37(1)(b). This data is related to terms currently in dispute with our contractor. This information has independent economic value from not being generally known to, and not being readily ascertainable by other parties, who could obtain economic value from its disclosure or use. Thus, Xcel Energy maintains this information as a trade secret pursuant to Minn. Rule 7829.05000.

Please contact me at (612) 215-4663 or aakash.chandarana@xcelenergy.com if you have any questions regarding this filing.

SINCERELY,

/s/

AAKASH H. CHANDARANA
REGIONAL VICE PRESIDENT
RATES AND REGULATORY AFFAIRS

c: Service List

CERTIFICATE OF SERVICE

I, Tiffany Hughes, hereby certify that I have this day served copies of the foregoing document on the attached list of persons.

xx by depositing a true and correct copy thereof, properly enveloped with postage paid in the United States mail at Minneapolis, Minnesota;

xx by email; or

xx by electronic filing.

DOCKET NO. E002/GR-13-868

Dated this 3rd day of February 2015

/s/

Tiffany Hughes

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