Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: October 22**,** 2015..... Agenda Item # _**8****__

Company: Northern States Power Company, d/b/a Xcel Energy

Docket No. E,G-002/D-15-46
In the Matter of Northern States Power Company's Request for Approval of the Annual Review of Remaining Lives Depreciation for Electric and Gas Production and Gas Storage Facilities and Net Salvage Rates for 2015

Issue(s): Should the Commission approve the proposed depreciation rates?

Should the Commission approve the proposed modification of the lives of certain plants?

Should the Commission approve the proposed reallocation of depreciation reserves?

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Relevant Documents

Xcel Filing.....May 18, 2015
Department Comments .....July 17, 2015
OAG-RUD Comments.....July 17, 2015
Xcel Reply Comments..... August 28, 2015
Department Response Comments .....September 21, 2015
Xcel Supplemental Reply Comments.....October 1, 2015
Department Supplemental Response Comments .....October 7, 2015

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October 14, 2015

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Statement of the Issue

Should the Commission approve the proposed depreciation rates?

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Background

On May 18, 2015, Xcel filed its 2015 Annual Review of Remaining Lives. The Company requested approval of:

- Passage of time adjustments for all electric and natural gas production and gas storage facilities, except as discussed below.
- Modification to the remaining lives for electric production plants Blue Lake Units 1-4, Red Wing, and Wilmarth.
- Modifications to the remaining lives for gas production plants Maplewood, Sibley, and Wescott.
- Updates to the net salvage rates for electric and natural gas production and gas storage facilities based on the 5-year Dismantling Study.

On June 17, 2015, the Department filed comments recommending approval of Xcel's request except for recommended changes in depreciation remaining lives of Sherco Units 1 and 2, Angus C. Anson Units 2 and 3, and Granite City Units 1 to 4. The Department requested that Xcel provide in its Reply Comments the depreciation expense impacts for the three remaining lives changes recommended by the Department. The Department also requested that the Company address in its reply comments why no capital additions are planned for 2015 and 2016 for the Sibley gas production facility.

On June 17, 2015, the Office of the Attorney General - Residential Utilities and Antitrust Division ("OAG") submitted comments recommending that Xcel's proposal to reallocate depreciation reserve be rejected and the effective date for approved 2015 depreciation rates should be January 1, 2015.

On August 28, 2015, Xcel filed reply comments addressing the issues raised by the Department and OAG. In addition Xcel discussed a correction to its petition regarding the cost of removal for ash landfills which were overstated for the Sherco steam production facility.

On September 21, 2015, the Department filed response comments revising some of its recommendations and requesting additional information from the Company.

On October 1, 2015, Xcel filed supplemental reply comments providing the update schedules requested by the Department

On October 7, 2015, the Department filed supplemental response comments responding to the Company's supplemental reply comments and made their final recommendation on the lives for Sherco 1 and 2.

Party Positions

Xcel Filing

The Company stated that the Commission approved its current remaining lives and net salvage rates effective January 1, 2014, in its June 16, 2014 Order in Docket No. E,G-002/D-14-181. This 2015 review uses the previously approved remaining lives and net salvage rates, assuming a one-year passage of time adjustment, as the starting point for this filing.

Xcel requested that the Commission approve the changes proposed by the Company effective January 1, 2016 unless noted. Normally it requests an effective date of January 1 in the year of the filing. However, in this docket it is requesting a prospective effective date in order to align any changes approved in this case with the effective date of the Company's upcoming Minnesota Electric Rate Case, which is now set to be filed on November 2, 2015 in Docket No. E-002/GR-15-826.

To begin its analysis of 2016 remaining lives, the Company incorporated a two-year passage of time adjustment to the 2014 certified remaining lives of all facilities. Subtracting two years from the present certified remaining life results in the proposed remaining lives as of January 1, 2016.

Recommended Changes in Remaining Lives for Production Facilities

Xcel requested approval of the changes to the remaining lives of three electric production facilities – Red Wing and Wilmarth steam production plants and Blue Lake Units 1thru 4 other production plant. It requested new remaining lives for two wind facilities that are expected to be in operation in late fall of 2015, Pleasant Valley Wind project and Borders Wind project. In addition, it is requesting changes in the remaining lives for three gas production plants – Maplewood, Sibley and Wescott.

Electric Utility

Electric Utility – Steam Production: Red Wing and Wilmarth

The Red Wing Steam Plant and the Wilmarth Steam Plant are refuse-derived fuel (RDF) plants. Currently, the remaining lives for both the Red Wing and Wilmarth production plants are linked directly with the remaining term of the Company's contract with Resource Recovery Technologies (RRT), the provider of refuse for the plant's fuel. The current contract between

Xcel Energy and RRT is set to expire at the end of 2017. Xcel anticipates operating the plants through 2027, and is exploring a 10-year fuel contract extension (through the end of 2027) with its RDF fuel supply contractor. Therefore, it requested that the remaining lives for both the Red Wing and Wilmarth RDF plants be extended by 10 years, to a 12-year remaining life as of January 1, 2016. The estimated depreciation expense impact of these changes to remaining lives, combined with the recommended changes to net salvage, results in an annual decrease in depreciation of approximately $5.4 million for Red Wing and approximately $4.2 million for Wilmarth.

Electric Utility – Other Production: Blue Lake Units 1- 4

In the Company's 2016-2030 Resource Plan filing, the Company stated that Blue Lake Units 1-4 would provide reserve capacity through 2023. The remaining life of Blue Lake Units 1-4 was allowed to expire at the end of 2012 and the plant is currently fully depreciated. There are no major capital additions planned for the facility. However, the new Dismantling Study estimates show an increase in the cost of removal for the Blue Lake Units 1-4 over what was assumed in the past. The Company recommended an increase in net salvage rate for Blue Lake Units 1 to 4 from negative 11.9 percent to negative 22.9 percent.

According to Xcel, if the remaining life of this plant is not changed and this new net salvage percentage is approved, the increase in cost of removal depreciation will be expensed immediately in 2016. This would result in depreciation expense of approximately $2.7 million in 2016. To avoid this and to take into account that the plant is still in use, the Company recommended that the remaining life of the plant be set to eight years as of January 1, 2016, to correspond with the expected remaining life stated in the 2015 resource plan. With this new remaining life 2016, depreciation will be approximately $336,000. No depreciation expense was recorded for Blue Lake Units 1-4 in 2014 and none is expected in 2015.

Electric Utility – Other Production: Pleasant Valley Wind project and Borders Wind project

The Company has two wind production facilities that are scheduled to begin operation in late 2015, the Pleasant Valley Wind project and the Borders Wind project.

The Company is proposing the use of a 25-year remaining life as of the in-service date of these facilities which is the same initial remaining life used for its Grand Meadow and Nobles Wind Farms. This 25-year life is comparable to the expected remaining life stated by the manufacturer of the turbines being used at these facilities.

The Company is expecting 2015 depreciation for Pleasant Valley Wind project of approximately $3.1 million and $1.4 million for the Borders Wind project.

Gas Utility

Production: Maplewood, Sibley and Wescott

In the winter of 2014 these gas production facilities were used extensively to maintain gas system reliability and it was determined that the likelihood of continued extensive use justified substantial capital additions to all gas production plants in the area. The Company has committed to extensive capital improvement and maintenance of these plants in the coming years.

Any capital additions would currently be depreciated over a much shorter period of time than they are projected to last, with higher than appropriate depreciation expense as a result. Based upon the planned capital additions and replacements, Xcel requested the remaining life of five years be extended 10 years to a 15-year remaining life. The estimated depreciation expense impact of these changes to remaining lives, combined with the recommended changes to net salvage provided later in this document, results in an annual increase in depreciation of approximately $170,000 for Maplewood, approximately $155,000 for Sibley and approximately $63,000 for Wescott .

Change in Net Salvage Rates

Xcel stated that the Commission's June 16, 2014 order in Docket No. E,G-002/D-14-181[1] required the Company to submit, "its next five-year depreciation study for electric and gas production and gas storage facilities on February 17, 2015." To meet this requirement, Xcel stated it completed an analysis of the cost of removal and net salvage for all of its facilities and presented as a part of this filing several recommended changes to its net salvage rates for both electric and gas facilities.

Electric Utility

In 2014, the Company contracted with TLG Services, Inc. (TLG) to perform a comprehensive dismantling study on all steam, hydro, and other production electric generating plants. The main purpose of the Dismantling Study was to estimate the present-day costs for retiring and demolishing the facilities, also known as final removals of existing facilities.

To arrive at the proposed net salvage rates, the Company started with the Dismantling Study cost estimates for final removals. It then evaluated whether a given unit was close to the end of its useful life, and the possibility that the entire unit would then be removed. It used the cost estimate divided by the original cost for the facility as the starting point for the net salvage analysis.

After applying a probability percentage based on its criteria for probabilities, Xcel arrived at an estimated net salvage rate for each electric production unit. The Company requested that the

[1] This reference is incorrect. The requirement was in the Commission's May 6, 2014 Order in Docket No. E,G-002/D-12-151.

proposed net salvage rates be applied to all FERC accounts for each unit or by plant where the units are not segregated. Applying a net salvage rate to all FERC accounts will better capture all costs which will ultimately be incurred for removal.

a) Hydro Production – Hennepin Island

The Dismantling Study being submitted in this filing represents the first site-specific dismantling cost estimate that has been completed for the Hennepin Island plant. Based on the new Dismantling Study, the Company is requesting a net salvage percentage of negative 26.4 percent for the Hennepin Island hydro facility.

b) Other Production– Pleasant Valley Wind project and Borders Wind project

In the current Minnesota Electric Rate Case (Docket E002/GR-13-868), the Company is proposing to use a net salvage rate of negative 8.5 percent for both Pleasant Valley Wind project and Border Winds project. This net salvage rate is similar to the negative 8.7 percent net salvage rate that is currently approved for both Grand Meadow and Nobles Wind Farms. The Company requested that the initial net salvage rate for Pleasant Valley Wind project and Borders Wind project be set at negative 8.5 percent, effective with the expected in-service date of late 2015.

c) Minnesota Valley Removal Update and Reserve Reallocation

The Minnesota Valley Plant is a former steam production facility located in Granite Falls, Minnesota which last burned coal in 2004, and the air permit was formally retired in 2009. The plant is no longer in operation and preliminary demolition work has begun.

In its 2013 Minnesota Electric Rate Case, the Commission approved a reallocation of reserve within the Steam Production function to the Minnesota Valley plant in order to cover all expected future removal costs. In compliance with the Commission's rate case order, the Company implemented that reserve reallocation based on the estimated removal costs in the rate case, which were the same as the costs presented in its 2012 remaining lives filing. At the same time the remaining life of the Minnesota Valley plant was set to zero.

As a part of the Dismantling Study, TLG completed an updated assessment of the estimated costs required to remove the Minnesota Valley plant. The most recent estimate of total removal cost for the facility is $22.1 million dollars. This is an increase of approximately $3.2 million over what is currently in the depreciation reserve account in order to cover future terminal removal expenses.

The Company is recommending doing another reallocation of reserve within the Steam Production function to the Minnesota Valley plant to cover the additional expected removal costs. Without a reallocation of reserve, the Company stated it would have to immediately expense the incremental $3.2 million in expected removal costs due to the fact that the plant no longer has a remaining life. This increase would be offset by the decrease in net salvage being requested for Black Dog Units 3 and 4. Due to a lower net salvage rate, Black Dog Units 3 and 4

now have approximately $2.7 million in excess depreciation reserve to fully recover the estimated future cost of removal. Xcel requested a reallocation of reserve from Black Dog of the excess depreciation reserve resulting from the decrease in net salvage rate. The transfer of reserve from other Steam Production facilities to Minnesota Valley and from Black Dog Units 3 & 4 causes the depreciation on the other facilities to go up approximately $42,000. The reserve reallocation results in a decrease in depreciation of approximately $416,000 in 2016.

d) Key City Reserve Reallocation

The Key City Plant ceased operations on March 31, 2015. The remaining life of the plant for depreciation purposes was allowed to expire on December 31, 2012. As of December 31, 2014 the plant was fully depreciated.

As a part of the Dismantling Study, TLG completed an updated assessment of the estimated costs required to remove the Key City plant. The most recent estimate of total removal cost for the facility is $4.1 million dollars. This is an increase of approximately $776,000 over what is currently in the depreciation reserve account in order to cover future terminal removal expenses.

Due to the fact that the plant is no longer operational, the Company is recommending doing a reallocation of reserve within the Other Production function to the Key City plant to cover the additional expected removal costs. Without a reallocation of reserve, the Company argued that it would have to immediately expense the incremental $776,000 in expected removal costs due to the fact that the plant no longer has a remaining life. The transfer of reserve from the remaining Other Production facilities to Key City causes the depreciation on the other facilities to go up approximately $44,000. The reserve reallocation results in a decrease in depreciation of approximately $733,000 in 2016.

e) Black Dog Units 3 and 4 Removal and Reserve Reallocation

The Company stated that Black Dog Units 3 and 4 were officially retired from service in April 2015.

The removal of the plant structures and equipment for Black Dog Units 3 and 4 are recovered through the negative net salvage rate. The net salvage rate approved for these units is negative 29.7 percent. The Dismantling Study resulted in a lower net salvage of negative 27.3 percent. Since there is no longer a remaining life on Black Dog Units 3 and 4, this change in net salvage was made through a reserve reallocation to the other steam units, thus leaving the annual depreciation expense at zero. At this time there is no specific plan for the removal of Units 3 and 4 related assets. Xcel expects that some assets will have to be removed in order to make room for a new unit, but the specific assets that require removal for this new unit is not known. It is possible many assets will remain in place, to be removed with the entire structure at the cessation of operations at the Black Dog facility.

f) Department of Commerce Recommendation in Docket No. E999/CI-13-626

Xcel stated that this investigation docket is still open. The Department of Commerce recommended that the use of probabilities be discontinued. The Department's recommendation will increase the depreciation expense for those units or plants not using 100 percent of the dismantling cost provided in the Dismantling Study. The impact to depreciation based on the Department's recommendation is $3.5 million further increase to depreciation expense.

Table 1

Total Depreciation Change With Probabilities (From Attachment B)	$4,890,685
Total Depreciation Change Without Probabilities (From Attachment B - Alternative)	$8,411,706
Difference	$3,521,021

Accordingly, should the Commission choose the Department's position, the Company requested that all the changes for the Electric Utility depreciation expense for assets except the new wind farms be effective January 1, 2016 and included in its next electric rate case proceeding.

Gas Utility

The Company stated that this filing represents the first time that TLG has performed a comprehensive Dismantling Study of removal costs for its gas utility facilities. The Company recommended the use of 75 percent of the dismantling costs for each facility in order to calculate net salvage rates. This is being recommended because the remaining life of each of the facilities is between 10 years and 20 years. This is consistent with the methodology used for electric facilities.

Conclusion

Xcel stated it requests that the Commission approve a total increase in depreciation expense of $4.9 million as proposed in this filing based on using the decommissioning probabilities for setting the net salvage rates for electric utility, with an effective date of January 1, 2016 for assets included in base rates, and effective with the in-service date for assets included in Riders.

Department Comments

According to the Department, with the exception of the units described below, Xcel proposed two-year reductions to the remaining lives of all of its electric production facilities to reflect the passage of time (from 2014 to 2016). After its review, the Department concluded that Xcel's proposed remaining lives are reasonable, except for the depreciation remaining lives of Sherco Units 1 and 2, Angus C. Anson Units 2 and 3, and Granite City Units 1 to 4.

Analysis of Changes to Remaining Lives for Electric Production Facilities

1. Red Wing and Wilmarth RDF Plants

Based on its review, the Department stated it considers it reasonable for the Company to change the remaining lives of the Red Wing and Wilmarth RDF Plants by extending the lives by 10 years resulting in a 12-year remaining life as of January 1, 2016 to be consistent with the fuel supply contracts for these plants.

2. Other Production: Blue Lake Units 1-4

The remaining life of Blue Lake Units 1-4 was allowed to expire at the end of 2012 and the plant is currently fully depreciated. The new Dismantling Study estimates show an increase in the cost of removal for Blue Lake Units 1-4 over what was assumed in the past. The Company has proposed a change in its net salvage rate for Blue Lake Units 1 to 4 from a negative 11.9 percent to a negative 22.9 percent.

Based on its review, the Department stated it considers it reasonable for the Company to change the remaining life and net salvage rate for Blue Lake Units 1-4 by extending the life by eight years to an eight-year remaining life for depreciation purposes as of January 1, 2016, which is consistent with the Company's resource plan life. The Department also considered it reasonable to increase the net salvage rate from a negative 11.9 percent to a negative 22.9 percent for Blue Lake Units 1-4, which is consistent with the Dismantling Study.

3. Other Production: Pleasant Valley Wind project and Borders Wind project

Based on its review, the Department stated it considers the Company's proposed 25-year depreciation lives for Pleasant Valley and Borders Wind projects to be reasonable and consistent with the depreciation lives of Grand Meadow and Nobles wind farms. Additionally, the Company deprecation lives are consistent with the 25-year life and almost the same capital additions were used in the Company's most recent rate case.

Analysis of Changes to Net Salvage Rates for Electric Production Facilities

The Commission's June 16, 2014 Order in Docket No. E,G-002/D-14-181[2] required the Company to submit a 5-year depreciation study for electric and gas production and gas storage. To meet this requirement, the Company had TLG Services, Inc. (TLG) perform a comprehensive dismantling study on all steam, hydro, and other production electric generation plants. The Company used TLG's estimated dismantling costs, and subtracted salvage value (scrap metal credits) to determine the net salvage rates. The Company also applied probabilities

[2] This reference is incorrect. The requirement was in the Commission's May 6, 2014 Order in Docket No. E,G-002/D-12-151.

The Department reviewed these Company requested changes in electric net salvage rates and noted that these changes are supported by the TLG Dismantling Study and are consistent with approvals in past rate cases where applicable. Thus, the Department stated it considers the Company's proposed electric net salvage rates to be reasonable and recommends that the Commission approve the Company's changes in net salvage rates. The Department recommended that Xcel continue to provide in future depreciation filings updates on removal costs for the Minnesota Valley Plant, Key City Plant, and Black Dog Units 3 and 4, the impact on depreciation reserves, including a final true-up when the retirement/removal is completed.

Analysis of Changes to Remaining Lives for Gas Production and Gas Storage

As stated above, Xcel proposed that the current remaining lives be adjusted by two years for the passage of time since the 2014 depreciation study to the proposed implementation date January 1 2016. Additionally, for the Maplewood, Sibley, and Wescott production facilities, the Company proposed that the remaining life be extended 10 years beginning January 1, 2015. Significant changes are also proposed to the net salvage rates beginning January 1, 2016.

To support the proposed 15-year remaining life (10 year extension) for the three production facilities, Xcel provided a detailed third-quarter 2014 study, LNG & LPG Facility Life Assessment, prepared by an outside consulting firm, Black & Veatch, in its response to DOC Information Request No. 10. The Department stated that the detailed study shows major findings and recommendations ranked by plant and importance some of which seem urgent due to the age of the equipment. According to the Department it is difficult to understand why no capital additions are planned for 2015 and 2016 for Sibley.

Based on the Department's analysis, the proposed extension of the remaining lives of the gas production facilities seem reasonable if the Company makes what appears to be the much-needed investment in the gas production facilities. Therefore, the Department recommended that the Commission approve Xcel's proposed changes to the gas production and gas storage facilities remaining lives. However, the Department requested that Xcel fully explain in its Reply Comments why no capital additions are planned for 2015 and 2016 for the Sibley gas production facility.

Analysis of Changes to Net Salvage Rates for Gas Production and Gas Storage

Based on its analysis, the Department concluded that the proposed salvage rates of the gas production and gas storage facilities are reasonable and supported by the study. Therefore, the Department recommended that the Commission approve Xcel's proposed changes to the gas production and gas storage facilities salvage rates.

Comparison of Resource Planning Lives to Depreciation Lives

The Department reviewed Xcel's Attachment F and expressed concerns on the comparisons between depreciation remaining lives and resource planning remaining lives for Sherco Units 1 and 2, Angus C. Anson Units 2 and 3, and Granite City Units 1 to 4.

1. Sherco Units 1 and 2

The Department questioned why a depreciation life of seven years for Sherco 1 and 2 is reasonable, in light of the fact that the earliest retirement for Sherco 1 and 2 is 2025 (as discussed in Attachment F on page 1 under Sherco 1 & 2 discussion) or alternatively through the end of the integrated resource plan (IRP) period in 2030 which is a 15 year remaining life.

Based on the Department's review of the Company's Attachment F which supports 2025 as the Company Preferred Plan in the IRP and the Company's IR response,[3] the Department recommended a depreciation life of 10 years which is consistent with the IRP remaining life to 2025, rather than the 2030 the Department was considering.

2. Angus C. Anson Units 2 and 3

The Department asked the Company to explain why a depreciation life of 3.8 years for Angus C. Anson Units 2 and 3 is reasonable, in light of the fact that the Company is assuming a remaining life for the IRP of 2030 which is a 15- year remaining life.

Based on its review of the Company's information request response,[4] the Department stated it believes that Angus C. Anson Units 2 and 3 will be able to operate for a time period longer than the current 3.8-year remaining life. Additionally, the Company indicated that it has no plans for capital additions. Thus, the Department concluded that capital additions are likely not needed for the longer 15-year resource planning life. The Department noted the importance of balancing assigning appropriate costs to the correct customers who benefit from this plant over the useful life with ensuring that the Company is assured full rate recovery for this plant. As a result, the Department recommended that a more conservative 10-year remaining life for Angus C. Anson Units 2 and 3 be approved, rather than the 15-year resource planning life noted in the Company's Attachment F.

3. Granite City Units 1 to 4

The Department asked the Company to explain why a depreciation life of 3.3 years for Granite City is reasonable, in light of the fact that the Company is assuming an 8-year remaining life for the IRP.

Based on its review of the Company's information request response,[5] the Department stated it

[3] See Department July 17, 2015 Comments on page 12
[4] See Department July 17, 2015 Comments on page 13
[5] See Department July 17, 2015 Comments on pages 13-14

believes that Granite City Units 1 to 4 will be able to operate for a time period longer than the current 3.3-year remaining life. The Department recommended a more conservative 10- year remaining life for Granite City Units 1 to 4 be approved by the Commission, rather than the 15-year resource planning life noted in the Company's Attachment F.

Except for Sherco Units 1 and 2, Angus C. Anson Units 2 and 3, and Granite City Units 1 to 4, where the Department recommends 10 year remaining lives, the Department concluded that Xcel has adequately explained the differences between its current resource plan and the 2015 Depreciation Petition. The Department requested that Xcel provide the depreciation expense impacts for the three remaining lives changes recommended by the Department. The Department recommended that the Commission continue to require Xcel to provide in future depreciation filings a comparison of depreciation remaining lives and resource planning remaining lives.

Recommendations

The Department recommended that the Commission:

- approve Xcel's proposed depreciation lives and salvage rates for electric production, gas production and gas storage, except for the remaining lives of Sherco Units 1 and 2, Angus C. Anson Units 2 and 3, and Granite City Units 1 to 4;
- revise the remaining lives for Sherco Units 1 and 2, Angus C. Anson Units 2 and 3, and Granite City Units 1 to 4 to the Department recommended 10 years;
- require Xcel to file its next remaining life depreciation filing by February 17, 2017;
- 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; and,
- require Xcel to continue to provide in future depreciation filings updates on removal costs for the Minnesota Valley Plant, Key City Plant and Black Dog Units 3 and 4, including the impact on depreciation reserves, and a final true-up when the retirement/removal is completed.

OAG Comments

The OAG expressed concern with Xcel's proposed depreciation reserve reallocation for the Minnesota Valley, Black Dog Units 3 and 4, and Key City facilities and Xcel's request to make the approval of the depreciation changes in this proceeding effective on January 1, 2016, rather than January 1, 2015.

The OAG argued that the proposed reallocation of depreciation reserve hides the real problem of inaccurately estimating dismantling costs resulting in intergenerational inequity. Xcel should expense the increase of the removal costs for the Minnesota Valley and Key City steam production facilities in 2015, and not reallocate depreciation reserve from Black Dog Units 3 and 4.

The OAG is concerned that Xcel's proposal to reallocate depreciation reserve balances between assets, even if the assets are within the same asset function, will have adverse and unintended consequences in the long-run and that the proposed reallocation has not been justified.

If the reallocation of depreciation reserve becomes the default treatment for removal costs that are in excess of previously-estimated removal costs for assets with no remaining useful life, then the exercise of estimating removal costs becomes irrelevant. The utility then has little incentive to accurately estimate the net salvage rates in order to ensure that the appropriate level of depreciation expense is being recorded during an asset's useful life. Failing to accurately estimate removal costs results in intergenerational subsidization when ratepayers are asked to pay the depreciation expense of facilities which are no longer in service and those facilities are not providing those ratepayers with any discernible benefits.

The OAG stated that the issue of depreciation reserve reallocation should be used sparingly and only in the context of a comprehensive review of depreciation rates and reserves under a thorough five-year depreciation study for assets that still have remaining useful lives and are still in service. Limited application to in-service assets would be consistent with the Federal Energy Regulatory Commission's rule requiring utilities to use "methods of depreciation that allocate the cost of utility property *over its useful life* in a systematic and rational manner."

The OAG argued that Xcel should expense the increased removal costs for the Minnesota Valley facility and not reallocate depreciation reserve from Black Dog units 3 and 4. Altering the depreciation reserves of all seven facilities in the "Steam Production" function will only serve to obfuscate the issue of inaccurate dismantling estimates by Xcel and mask the associated consequences to various generations of ratepayers. Additionally, the question of whether Xcel is adequately planning and properly including sufficient removal costs in depreciation rates has been asked in previous depreciation filings, and is an issue that Xcel has not fully addressed in this current filing.

The removal costs for the Minnesota Valley plant have been fluctuating for several years. As recently as 2009, the estimated removal costs were $13.9 million. This estimate had increased to $21.0 million by 2012. Xcel decreased this estimate in 2013 to $19.3 million. This year, the estimate has once again increased to $22.1 million, as reflected in the current filing. These frequent multi-million dollar changes to removal cost estimates during the final years of plant removal illustrate Xcel's ongoing difficulty with developing accurate estimates of removal costs. Due to intergenerational recovery issues, the OAG recommended that the Commission require Xcel to expense the estimated $3.2 million increase in removal costs.

The OAG argued that there are additional problems with Xcel's proposal to reallocate reserve from Black Dog. There is considerable uncertainty with the removal plans for Black Dog Units 3 and 4, including the possibility that these assets will remain in place until they are removed along with the rest of the structure at the cessation of operations at the Black Dog facility. Since the removal activity is deferred to future time periods, this cost will likely continue to increase. Xcel has indicated that Black Dog Units 3 and 4 were taken out of service in April, 2015, and no longer have any remaining life; therefore there is no further opportunity to correct depreciation

reserve imbalances during its remaining useful service life. Xcel's proposal does not address these concerns.

For the Key City facility, Xcel proposes reallocating depreciation reserve from nine facilities within the "Other Production" function to cover the $776,000 increase in estimated removal costs. This would be improper for the same reasons noted above for the Minnesota Valley and Black Dog Unit 3 and 4 facilities. The Commission should require Xcel to expense the $776,000 estimated increase in removal costs.

The OAG argued that the method and amount of recovery of depreciation expense recorded to increase the deprecation reserve account should be decided in a general rate case. Because this docket is not the proper forum for resolving all associated issues, and consequently the issues have not been explored through the rigorous discovery, testimony, cross-examination of witnesses, and briefing procedures of a general rate case, the OAG stated it has not taken a position at this time on the method or amount of recovery that would be most appropriate for depreciation expense that is recorded to increase the depreciation reserve account.

Effective Date

The OAG stated that the effective date for approved 2015 depreciation rates should be January 1, 2015. Xcel's proposed 2016 effective date for its 2015 depreciation rates is improper. The timing of the implementation of these rates should be consistent with how these rates have been applied in the past. Because 2016 will have its own depreciation study, it would be inappropriate to delay the implementation of the approved 2015 depreciation rates until 2016. Xcel argues that an effective date in January, 2016, would align changes in depreciation rates with the effective date of its next Minnesota electric rate case. The rules, however, clearly state that if a utility uses remaining life technique for depreciating assets, there must be an annual filing. By delaying the effectiveness of these rates until 2016, Xcel will have circumvented these rules by completing an annual review while not applying the results of that review to its accounting. Therefore, the depreciation rates finalized in 2015 should be effective as of January 1, 2015.

Xcel Reply Comments

Changes to Depreciation Lives and Net Salvage Rates

The Company disagreed with the Department because it believes it is premature to adjust the remaining lives of the six disputed units at this time. The 2016-2030 Resource Plan is an open docket, and a decision about the retirement dates will depend on the outcome of that filing. Xcel noted there will likely be an opportunity to incorporate any changes stemming from a decision on its integrated resource plan in its next rate case,

According to the company this proposed life extension results in an overall $11.3 million decrease to depreciation expense in 2016. The original filing showed a $4.9 million increase, thus resulting in a $16.2 million decrease from what was filed.

Sibley Capital Additions in 2015 and 2016

Xcel stated that in its response to DOC Information Request No. 11, it erroneously stated that no capital additions were currently planned for Sibley in 2015 or 2016. After further examination of the capital budget data, the Company determined that the specific projects for Sibley were processed with other gas capital projects and were not readily identifiable as Sibley related additions. As a result, there are capital additions planned for Sibley during this timeframe.

Reserve Reallocation

According to the Company, changes in estimated net salvage and cost of removal expense can be expected to occur up to and including the time removal takes place. Often this removal period is years after the actual shut down of the plant. In the event that a change occurs, reserve reallocation helps to smooth the impact over the lives of all plants in the functional class, as allowed for by FERC. The Commission has allowed a reserve reallocation in the instance of expected over or under recovery estimates in the past.

Without a reserve reallocation, a plant with a zero remaining life would depreciate any change in net salvage rate in the current period, either positive or negative. The reserve reallocation process eliminates this current period expensing for deficiencies and surpluses for units with no remaining life by moving depreciation reserve from the units with life remaining to those without a life remaining. The change in depreciation reserve for the units with remaining life is then recovered over the unit's remaining life through depreciation. This decreases the potential intergenerational inequity rate payers may face by spreading the impact into the future.

The OAG noted that depreciation reserve reallocations should only be performed in the context of a five year study. The Company stated that this study is the five year analysis for the removal cost estimates.

Net Salvage Estimates

The OAG suggested that the continued changes to our estimated net salvage indicate inaccuracies in the Company's estimation process. However, Xcel argued that it is the nature of estimates to vary as new information arises and different scenarios present themselves. Besides uncertainties in the method of removal, there exist potential changes in labor and materials markets, generation capacity needs, fuel costs, and environmental remediation requirements.

Correction to Original Filing

Xcel stated it discovered that the cost of removal for ash landfills was twice what it should have been for the Sherco steam production facility. The original filing stated this removal cost was $35.3 million; however, the removal cost should have been $20.4 million.

Based on the corrected cost estimate, the Company recommended a net salvage rate of negative 15.2 percent for Sherco Units 1 and 2 and negative 2.7 percent for Sherco Unit 3. These recommended net salvage rates result in a recommended change in depreciation that is $1.8

million lower than previously stated. As a result, its recommended depreciation change for 2016 is $3.1 million as compared to $4.9 million in its initial filing.

Department Response Comments

The Department's initial recommendation was that the Commission extend the remaining lives to 10 years for Sherco Units 1 and 2 (from 7 years), Angus C. Anson Units 2 and 3 (from 3.8 years), and Granite City Units 1 to 4 (from 3.3 years). The Department stated that while it revises its recommendations somewhat below, based on its additional analysis, the Department recommends that the Commission adjust depreciation lives at least for the Angus C. Anson units, Granite City Units 1 to 4, and one of the Sherco units.

The Department argued that for the Angus C. Anson Units 2 and 3 and Granite City Units 1 to 4, all of which are powered by natural gas, waiting for the IRP completion and approval is not likely to provide additional information as suggested by Xcel, since the Company recommended in their IRP preferred plan a useful life of 15 years for Angus C. Anson Units 2 and 3, and 8 years for Granite City Units 1 to 4. Further, neither the Department nor any other party has opposed these remaining lives for IRP purposes.

Therefore, the expected lives for Angus C. Anson Units 2 and 3 should be increased from 3.8 years to 10 years, as recommended by the Department.

For the Granite City Units 1 to 4, the Department revised its recommendation for the remaining lives from 10 years to 8 years, to reflect the assumed lives in the IRP. Thus, the current life should increase from 3.3 years to 8 years.

Additionally, for Sherco Units 1 and 2, Xcel recommended in its preferred IRP plan a 15-year life through the end of the IRP period (or at the earliest 2025, a 10 year life). For Sherco Unit 1, the Department recommended a possible repowering to use a natural gas boiler in the 2025 to 2026 timeframe or a 10-year life for IRP purposes. The Department also recommended that the Company file its next IRP January 16, 2017 to address the Sherco Units 1 and 2 action plan. The Clean Energy Organizations proposed retiring one Sherco unit in 2021 and the second in 2024. Thus, no party is proposing to shut down both units prior to 2024. Therefore, for at least one Sherco unit, based on the information available, even under the strictest recommendation in Xcel's IRP, it would be reasonable to extend the life of one Sherco unit to 10 years.

Based on discussions with DOC IRP staff, the Department now recommends the more conservative depreciation life for Sherco Unit 1. DOC IRP staff noted that, based on the limited information known at this time about the effects of the Environmental Protection Agency's Clean Power Plan, one of the Sherco units may need to be shut down prior to 2025. Therefore, at this time, the Department is no longer recommending a change to the Company's depreciation remaining life of 7 years for Sherco Unit 1.

The following table compares Xcel's preferred plan lives from the IRP, the Department's initial

recommendations from its Comments, and the remaining lives that the Department now recommends in the these Supplemental Comments:

Table 1: Comparison of Lives in IRP to DOC's Recommendations

	Xcel's IRP Preferred Plan	DOC's Initial RL[7]	DOC's Response RL
Sherco Unit 1	10 to 15 years	10 years	7 years
Sherco Unit 2	10 to 15 years	10 years	10 years
Angus Anson Units 2 & 3	15 years	10 years	10 years
Granite City Units 1 to 4	8 years	10 years	8 years

The Department stated it considers its revised recommendations for extending the remaining lives for Sherco Unit 2, Angus C. Anson Units 2 and 3, and Granite City Units 1 to 4 to be conservative and reasonable, striking an appropriate balance of the important goals of setting reasonable depreciation rates yet allowing Xcel a fair recovery of its plant investment from the customers who will use the facilities.

Sherco Facility's Removal Cost Error

The Department stated it appreciates Xcel's correction of its net salvage rates for Sherco Units 1, 2, and 3. The Department recommended that the Commission accept this correction, which reduces Xcel's proposed depreciation expense (with probabilities) increase from $4.9 million to $3.1 million, or a $1.8 million reduction in depreciation expense.

Regarding salvage rates, the Department continues to recommend that the Commission approve Xcel's proposed salvage rates for electric production, gas production and gas storage. In addition, the Department now recommends that the Commission:

- approve Xcel's corrected salvage rates for Sherco Units 1 and 2 of negative 15.2 percent; and
- approve Xcel's corrected salvage rates for Sherco Unit 3 of negative 2.7 percent.

Recommendations

The Department now recommends that the Commission:

- approve Xcel's proposed depreciation lives for electric production, gas production and gas storage, except for the remaining lives of Sherco Unit 2, Angus C. Anson Units 2 and 3, and Granite City Units 1 to 4;
- revise the remaining lives for Sherco Unit 2 and Angus C. Anson Units 2 and 3 to the Department recommended 10 years;
- revise the remaining lives for Granite City Units 1 to 4 to 8 years;
- approve Xcel's proposed remaining life of 7 years for Sherco Unit 1;
- approve Xcel's proposed salvage rates for electric production, gas production and gas

storage, except for the salvage rates of Sherco Units 1, 2, and 3;
- approve Xcel's corrected salvage rates for Sherco Units 1 and 2 of negative 15.2 percent; and
- approve Xcel's corrected salvage rates for Sherco Unit 3 of negative 2.7 percent.
-

The Department continued to recommend that the Commission:

- require Xcel to file its next remaining life depreciation filing by February 17, 2017;
- 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; and
- require Xcel to continue to provide in future depreciation filings updates on removal costs for the Minnesota Valley Plant, Key City Plant and Black Dog Units 3 and 4, including the impact on depreciation reserves, and a final true up when the retirement/removal is completed.

The Department also requested that Xcel provide in Supplemental Reply Comments:

- an update of the Department's Tables 3 and 4 based on the Department's revised recommended life for Sherco Unit 1 to 7 years and Granite City Units 1 to 4 to 8 years; and
- a table showing the depreciation expense impact for each Department recommendation with and without probabilities, including the impact for increasing the life of Sherco Unit 2 to 10 years, Angus C. Anson Units 2 and 3 to 10 years and Granite City Units 1 to 4 to 8 years, and Xcel's correction of the error for Sherco's net salvage rates.

Xcel Supplemental Reply Comments

Xcel provided updated Department Tables 3 & 4 on pages 1 and 2 as requested by the Department.

Xcel also provided the table shown below showing the depreciation expense impact for each Department recommendation with and without probabilities, including the impact for extending the life of Sherco Unit 2 to 10 years, Angus C. Anson Units 2 and 3 to 10 years, and Granite City Units 1 through 4 to 8 years, incorporating Xcel Energy's correction of the error for net salvage rates for Sherco.

2016 Depreciation Impact of Supplemental Life Adjustments ($s in millions)

	Xcel Energy Proposed Lives	Sherco unit 2 (From 7 to 10 yr RL)	Granite City (From 3.4 to 8 yr RL)	Angus C Anson units 2 and 3 (From 3.8 to 10 yr RL)	Total Impact
With Probabilities	$3.1	($6.7)	($0.3)	($3.3)	($7.2)
Without Probabilities	$6.5	($6.7)	($0.3)	($3.1)	($3.6)

Xcel also noted the effect of the Commission's decision in Docket E,G-999/CI-13-626 to discontinue the use of net-salvage probabilities. The resulting impact of this decision on scenarios recommended by the Company is an increase of $6.5 million and for the Department's recommendations it is a decrease of $3.6 million.

Department Supplemental Response Comments

The Department noted that Granite City Units 1 to 4 and Angus C. Anson Units 2 and 3 are not being debated in the current IRP, so it is not premature to make a decision about depreciation lives for these plants. In addition, Xcel's October 2nd IRP Reply comments recommended that Sherco Unit 2 be retired in 2023 (or an 8 year remaining life) and Sherco Unit 1 be retired in 2026 (or an 11 year remaining life). In the depreciation study, the Department recommended in its Response comments not to change the current remaining life of 7 years for Sherco 1, and extend the remaining life of Sherco 2 from 7 to 10 years. As a result, the Department's recommendations synch up well and in fact are 1 year shorter, or slightly more conservative, than Xcel's most recent IRP proposal.

The Department noted and does not object to Xcel's preference for retiring Sherco 2 before Sherco 1 for various operational reasons.

This table captures the changes in Xcel's IRP and remaining life (RL) depreciation study:

	Xcel RL Initial Position	Xcel's IRP	Xcel Revised IRP	DOC RL	DOC Revised RL
Sherco 1	7 yrs	10-15 yrs	11 yrs	7 yrs	10 yrs
Sherco 2	7 yrs	10-15 yrs	8 yrs	10 yrs	7 yrs

The Department recommended for depreciation expense/remaining lives purposes that Sherco Unit 1 be assigned a 10 year remaining life and Sherco Unit 2 be assigned the 7 year remaining life (current remaining life without any changes). This change has no financial impact to depreciation expense because of the Company's assumptions used to split Sherco Units 1 and 2.

The Department stated it agrees with the Company's revised information in its Supplemental Reply comments filed October 1, 2015, except for the recommendation to defer the decision on depreciation remaining lives until the outcome of the IRP.

Staff Analysis

There was no disagreement between the Department and Xcel on Xcel's proposed depreciation lives and salvage rates for electric production, gas production and gas storage, except for the remaining lives of Sherco Units 1 and 2, Angus C. Anson Units 2 and 3, and Granite City Units 1 to 4.

Sherco 1 & 2

As shown in the Table above, by the end of comments, the difference between the Company and the Department for Sherco 1 and 2 was one year for each of the plants. This movement occurred after Xcel filed reply comments on October 2 in the IRP Docket No. E-002/RP-15-21 where it stated:

> With our revised proposal, we can achieve a 60 percent carbon emissions reduction by 2030 (from 2005 levels). To achieve that goal, we propose three actions:
>
> First, establish retirement dates for Sherco Units 1 and 2 that are technically feasible, allow for an orderly workforce transition, and align with our resource needs. To that end, we propose to cease coal operations at Sherco Unit 2 in 2023 and Sherco Unit 1 in 2026.

Staff believes that the one year difference is not significant and the Commission could accept either proposal. The main consideration would be whether Sherco 1 and 2 are likely to be taken out of service as proposed by Xcel or if that might occur earlier than the Company's proposal.

Angus C. Anson Units 2 & 3

For Angus C. Anson Units 2 and 3, the Company proposed a 3.8 year remaining life, the IRP showed 15 years and the Department proposed 10 years. Regarding the IRP life, Xcel stated "the forecasted operational life extends beyond the current depreciation life because although we have no further capital addition investments planned that would extend the life of the plant, we believe we can continue to operate it to provide ongoing capacity benefits to our system and customers." Because there are no planned capital additions and Xcel believes the plant would be in service for an additional 15 years, Staff believes that the Department's proposed 10 year remaining life which is in the middle of 3.8 and 15 years, is a reasonable remaining life. The expense based on 10 years is less than for 3.8 years, so this provides some ratepayer protection if the plant actually runs for 15 more years.

Granite City Units 1 to 4

There is a discrepancy on the IRP life on pages 13 and 14 of the Department's initial comments. On page 13 it states the IRP life from Xcel Schedule F is 8 years and on page 14 that the IRP life is 15 years. Based on the 15 years, the Department recommended a 10 year remaining life. In its response comments, the Department revised its recommendation from a 10 year remaining life to an 8 year remaining life to match the IRP remaining life.

As with the Angus Anson plant, Xcel believes the Granite City units can continue to operate without any capital additions. Based on Xcel's belief in the IRP that 8 years is a reasonable life for the Granite City units, it appears that 8 years is appropriate to use in this depreciation update. Staff does not have any concerns with the 8 year remaining life.

Reallocation of Reserves

In this docket, the Department did not discuss Xcel's request to reallocate depreciation reserves other than indirectly when it recommended approval of the related proposed salvage rates. The OAG objected to reallocating reserves saying to do so would cause intergenerational cost recovery issues and distort the previously approved salvage factors.

According to Xcel, if the Commission does not approve the requested reallocation of depreciation reserves, it would have to record as current expense the shortfall in the accrued decommissioning cost. The effect of this would depend on when the reallocation was effective. If the changes were effective January 1, 2015, then the cost would occur outside a rate case and Xcel would not recover the cost from ratepayers. If the changes were effective January 1, 2016 as proposed by Xcel, then the cost would likely be included in the rate case that is expected to be filed in November 2015. In that case, Xcel might recover the cost from ratepayers.

The remaining life depreciation expense is calculated based on the plant net of the depreciation reserve. A reallocation of the reserve would reduce the depreciation reserve of the account the reserve is transferred from. That would increase the amount of the net plant balance resulting in an increase in depreciation expense for the remaining life of the plant.

According to Xcel the transfer of reserve from other Steam Production facilities and from Black Dog Units 3 & 4 to Minnesota Valley causes the depreciation on the other facilities to go up approximately $42,000. The reserve reallocation results in a decrease in depreciation of approximately $416,000 in 2016 (net of the transfer from Black Dog). That amount is the amount Xcel would have to write-off if the reallocation is not approved less the increase in depreciation if the reallocation is approved.

The transfer of reserve from the remaining Other Production facilities to Key City causes the depreciation on the other facilities to go up approximately $44,000. The reserve reallocation results in a decrease in depreciation of approximately $733,000 in 2016.

The Commission has allowed Xcel to reallocate reserves in the past as noted on page 4 of Xcel's August 28, 2015 reply comments. According to Xcel, in its 2013 Minnesota Electric Rate Case, the Commission approved a reallocation of reserve within the Steam Production function to the Minnesota Valley plant in order to cover all expected future removal costs. Staff agrees with the OAG that it is concerning that the salvage costs of the Minnesota Valley plant have gone up and down over the past few years. Because preliminary demolition work has begun, one would expect that the Company would have developed a more final and stable cost. The Company did not provide an explanation in this filing of the circumstances that are causing the cost to fluctuate as it has been.

Minn. Rule 7825.0600, Subpart 1 states in part: Any allocation or adjustment of the depreciation reserve will require specific justification and certification by the commission. Therefore, while reallocation of reserves is unusual, it was contemplated in the rules. The question for the Commission is whether the Company's argument, that without a reallocation, they will have to write off the increased salvage (decommissioning) in one year provides the specific justification required by the rule.

The OAG raised the concern about intergenerational cost issues related to a reserve reallocation. The depreciation that is being reallocated was charged to past ratepayers for the service that was being provided to them at that time. The costs that would be recovered through the reallocation are costs that, if they had been identified, would have likely been charged during that same time. Therefore, it appears there is some matching of the cost and the time the service was provided through a reallocation. The increase in depreciation for the remaining plant in service would be expensed over the remaining life, so it could be considered as the expense matching the service to be provided in the future.

The OAG argued that the issue of depreciation reserve reallocation should be used sparingly and only in the context of a comprehensive review of depreciation rates and reserves under a thorough five-year depreciation study for assets that still have remaining useful life. In its reply comments, Xcel stated that this study is the five year analysis for the removal cost estimates. There appears to be a misunderstanding by the OAG about a five year study.

Xcel uses two methods of depreciation: average service life and remaining life. Xcel uses the average service method for its Transmission, Distribution and General (TD&G) plant. The Company files a five year study for the TD&G plant. Generally, the lives and salvage rates are only revised every five years for the TD&G plant. Xcel's most recent 5 year study was filed in Docket E,G-002/D-12-858. The Order in that docket required Xcel to file a comprehensive five-year depreciation study for its TD&G accounts by July 31, 2017.

Under the remaining life method, Xcel files an annual study to update the lives and salvage values. According to Xcel, this study includes the five year analysis for the removal cost estimates. Xcel appears to contract with an outside party to make a study of removal costs every five years which would supplement its internal annual review. However, Minn. Rule 7825.0600 subpart 2 (D) provides:

> 7825.0600 DEPRECIATION CERTIFICATION.
> Subp. 2. Class A and B utilities. Class A and B utilities, as defined by the system of accounts, shall:
>
> D. review their depreciation rates annually to determine if they are still generally appropriate. Depreciation certification studies shall be made so that all primary accounts shall have been analyzed at least every five years.

The first line of subp. 2(D) states that if the Company has reviewed its depreciation rates and determined they are still generally appropriate, then it does not have to file an annual study. That is the case even though the normal practice is to file an annual remaining life study.

The Commission's June 16, 2014 Order in Docket No. E,G-002/D-14-181 required Xcel to file its next remaining life depreciation filing by February 17, 2015. Because the current filing is requesting approval for rates for 2016, for all practical purposes it is an early filed 2016 filing. A remaining life study is an annual filing, so even though the Order did not specifically state that the filing was to be a 2015 filing that was understood to be the case.

Staff believes that Xcel has not complied with the June 16, 2014 Order by making a filing for 2015 depreciation rates. However, the Commission could make the decision to accept the filing as complying with the Order.

Effective Date of Filing

The OAG argued that the effective date of the depreciation rates from this filing should be January 1, 2015 which is the date the rates from a 2015 filing would normally be effective. In Information Request 8,[6] the Department asked the Company to identify any depreciation filing where the Company has not implemented its depreciation changes in the same year as its depreciation filing, but instead implemented the depreciation changes in the following year as requested in the current Xcel Petition.

The response showed only two remaining life petitions, like this one, where the rates were implemented in the year following the filing of the petition. Those occurred in 1992 and 1993. The Company's request is unusual. Approval of the request would allow Xcel to file its rate case using rates for 2016 that had been approved. The Department supports this request for that reason. If the effective date would be January 1, 2015, then Xcel would have to incorporate depreciation expense based on 2016 rates later in the rate case after making a filing for 2016 depreciation rates and those rates were approved by the Commission.

Staff's understanding is that the rates approved for 2014 were used in the 13-868 rate case and for the 2015 step. Those are also the rates that would have been used in 2014 and 2015 for

[6] See Department July 17, 2015 comments, Attachment A, pages 11 – 12 of 85.

financial reporting purposes. There is not adequate information in this filing to determine whether the 2015 depreciation expense based on approved 2014 rates is more or less than what it would have been using a 2015 rate.

It appears in this instance, there is likely no harm to ratepayers in using the 2014 depreciation rates for 2015 and approving a January 1, 2016 effective date. However, if the Commission does approve this request, Staff suggests that it be emphasized to the Company that this is an exception and the Commission expects that annual depreciation remaining lives filings will be made in the future.

Decision Alternatives

Proposed Depreciation Lives

1. Approve Xcel's proposed depreciation lives for electric production, gas production and gas storage, except as modified below. (Xcel)

2. Approve Xcel's proposed depreciation lives for electric production, gas production and gas storage, except for the remaining lives of Sherco Unit 2, Angus C. Anson Units 2 and 3, and Granite City Units 1 to 4. (Department)

3. Do not approve Xcel's proposed depreciation lives for electric production, gas production and gas storage and require the Company to file a proposal for rates for 2015.

Sherco 1 and Angus C. Anson Units 2 and 3

4. Approve Xcel's revised life of 11 years for Sherco 1 and proposed life of 3.8 years for Angus C. Anson Units 2 and 3.

5. Approve the Department recommended remaining lives of 10 years for Sherco Unit 1 and Angus C. Anson Units 2 and 3.

Sherco 2

6. Approve Xcel's revised proposed remaining life of 8 years.

7. Approve the Department's recommended remaining life 7 years.

Granite City Units 1 to 4

8. Approve Xcel's proposed remaining life 3.3 years

9. Approve the Department's revised the remaining live of 8 years.

Salvage Rates

10. Approve Xcel's proposed salvage rates for electric production, gas production and gas storage as requested in the initial filing.

11. Approve Xcel's proposed salvage rates for electric production, gas production and gas storage, except for the salvage rates of Sherco Units 1, 2, and 3; and

    Approve Xcel's corrected salvage rates for Sherco Units 1 and 2 of negative 15.2 percent; and

    Approve Xcel's corrected salvage rates for Sherco Unit 3 of negative 2.7 percent. (Xcel, Department)

Reserve Reallocation

12. Allow Xcel to reallocate reserves to the Minnesota Valley plant and the Key City facility as proposed by Xcel.

13. Do not allow Xcel to reallocate reserves to the Minnesota Valley plant and the Key City facility and determine that any reallocation must be done in the context of a general rate case.

Effective Date of Rates

14. Allow Xcel to implement the approved depreciation lives and salvage rates effective January 1, 2016.

15. Require that Xcel make a compliance filing to update this filing with 2015 depreciation lives and salvage rates that would be effective January 1, 2015.

Compliance with June 16, 2014 Order in Docket No. E,G-002/D-14-181

16. Determine that Xcel has not complied with the Order because it did not submit a request for approval of 2015 remaining lives depreciation rates.

17. Accept this filing for the limited purpose of complying with the June 16, 2014 Order.

Future Filings

18. Require Xcel

- to file its 2017 remaining life depreciation filing by February 17, 2017;
- to file its next five-year depreciation study and net salvage rate study for electric and gas

production and gas storage facilities on February 17, 2020.

- 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;
- to continue to provide in future depreciation filings a historical comparison of changes in remaining lives and net salvage rates; and
- to continue to provide in future depreciation filings updates on removal costs for the Minnesota Valley Plant, Key City Plant and Black Dog Units 3 and 4, including the impact on depreciation reserves, and a final true up when the retirement/removal is completed.