414 Nicollet Mall
Minneapolis, MN 55401

October 10, 2019

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

RE: REPLY COMMENTS
ANNUAL UPDATE OF REMAINING LIVES AND DEPRECIATION RATES FOR TRANSMISSION, DISTRIBUTION, AND GENERAL ACCOUNTS
DOCKET NO. E,G002/D-19-490

Dear Mr. Wolf:

Northern States Power Company, doing business as Xcel Energy, submits the enclosed Reply Comments in response to Comments received from the Department of Commerce on September 26, 2019.

We have electronically filed this document with the Minnesota Public Utilities Commission, and summaries have been served on the parties on the attached service lists. Please contact me at laurie.j.wold@xcelenergy.com or (612) 330-5510 if you have any questions regarding this filing.

Sincerely,

/s/

LAURIE J. WOLD
SENIOR MANAGER, CAPITAL ASSET ACCOUNTING

Enclosures
c: Service List

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

Katie J. Sieben	Chair
Dan Lipschultz	Commissioner
Valerie Means	Commissioner
Matthew Schuerger	Commissioner
John A. Tuma	Commissioner

IN THE MATTER OF THE PETITION OF NORTHERN STATES POWER COMPANY FOR APPROVAL OF ITS 2019 ANNUAL REVIEW OF TRANSMISSION, DISTRIBUTION, AND GENERAL DEPRECIATION CERTIFICATION

DOCKET NO. E,G002/D-19-490

REPLY COMMENTS

INTRODUCTION

Northern States Power Company, doing business as Xcel Energy, submits these Reply Comments in response to Comments received from the Department of Commerce, Division of Energy Resources (Department) on September 26, 2019. We appreciate the review and analysis of the Department on our Compliance Filing and provide our Reply to their Comments below.

REPLY COMMENTS

In their Comments, the Department requested the Company include additional reporting in future compliance filings. The Company does not object to providing the requested additional information and will provide the following as part of future filings:

1) A supplemental plant-in-service activity schedule that excludes fully depreciated (i.e. fully reserved) plant amounts from the overall beginning and ending plant balances of the Company's FERC accounts, and
2) Continued reporting of Account 302 – *Franchise and Consents*.

The Department also requested additional detail, analysis, and breakout of Account 390 – *Structures & Improvements*. Specifically, the Department asked the Company to provide a proposal in these Reply Comments that explains how the Company:

- Determines which structures should be removed from the group to be depreciated separately, and which should remain in the group.
- Allocates the existing depreciation reserve among structures that should be removed from the larger group and those that remain in the group.
- Determines the remaining lives for structures that should be removed from the group and the remaining life for the group.

Pursuant to discussion with the Department, the Company details its proposed process below and will implement that process in our next compliance filing that is due in July 2020.

I. ALLOCATING STRUCTURES BETWEEN GROUP AND INDIVIDUAL DEPRECIATION

The Department's recommendation for disaggregating some of the assets within Account 390 is driven by its observation that "for both the Common and Electric utility segments, the majority of the historical cost and depreciation reserve . . . are comprised of the minority of the structures included in the account." The Department has asked that the Company separately account for depreciation for the small number of "high-value" buildings in Account 390, the retirement of which "could have a significant impact on the depreciation expense of the account as a whole."

In order to align with this request, we decided the appropriate first step was to set a dollar threshold to identify assets to individually depreciate. We reviewed two different threshold levels, asset locations with greater than $4 million in gross plant and locations greater than $10 million, considering all assets at one location as the unit of measure (for instance, a main building and a parking lot may have been listed separately on Schedule H to the initial filing so we grouped those assets together). Please see Attachment A to these Reply Comments for the analysis.[1] The results of this analysis showed that individually depreciating all assets in Account 390 with gross plant values over $10 million would account for 59 percent of the Electric Utility assets and 65 percent of the Common Utility assets. Individually depreciating all assets with gross plant values over $4 million would add only two additional electric asset locations and six common asset locations which would be individually

[1] The 401 Nicollet Mall leased asset was excluded from analysis as it is already using an "end of life" methodology as noted by the Department.

depreciated. Based on these results, the Company determined $10 million to be a reasonable threshold because the marginal benefit of moving to a $4 million threshold would be minimal. Additionally, the in-service dates of the assets in the $4-10 million range were within a reasonably similar timeframe as the remaining lower value assets as to not skew the average age.

II. ALLOCATING EXISTING DEPRECIATION RESERVE

The Company uses PowerPlan software as our subledger system of accounting record. The functionality of PowerPlan will facilitate allocating existing depreciation reserve among assets in Account 390 that are removed from the group and separately depreciated and those that remain in the group.

PowerPlan has reporting functions which allocate the accumulated reserve within a set of group-depreciated assets to each individual asset in a particular group (in Account 390, the groups are Electric, Gas, and Common) in order to derive the net book value of the individual assets. Each asset within Account 390 has a location (e.g., Chestnut Service Center) assigned to it in PowerPlan. The Company will use these assigned asset locations to segregate the assets at locations with gross plant values over $10 million. At the time of separation from the groups, the Company will analyze the PowerPlan reported net book values of the segregated assets to determine the appropriate level of reserve for each asset as well as the appropriate reserve for the assets that remain in the groups.

III. REMAINING LIVES

Once we have separated the individually-depreciated assets from the group-depreciated assets, we will determine the appropriate remaining lives for each of the individually-depreciated assets, as well as the remaining groups.

A. Individually-Depreciated Assets

For each of the six major assets greater than $10 million identified in Attachment A, the Company will gather input from the facilities, property services, and other company experts familiar with the facilities to discuss various conditions which factor into the decision of the appropriate remaining life of the facility including, but not limited to:

- Current age and physical condition of the facility;
- short and long-term strategic operational plans;
- forecasted capital expenditures; and

- any potential plans to sell the existing facility or buy/lease a new facility.

Based on an assessment of these and other factors, the Company will assign each facility an individual remaining life.

B. Group-Depreciated Assets

After the individually-depreciated assets have been removed from the groups, the Company will analyze the assets remaining in the groups using similar criteria as noted above. We will also compare the age of the remaining facilities to their approved average service lives as well as their calculated remaining lives to determine if a change in the average service life for the group is warranted.

The Company will provide discussion of this process as well as any applicable schedules, supporting documentation, and proposals in our next annual review of transmission, distribution, and general depreciation certification compliance filing.

CONCLUSION

We appreciate the opportunity to provide these Reply Comments. We appreciate the review completed by the Department of Commerce and continue to recommend our compliance filing be approved.

Dated: October 10, 2019

Northern States Power Company

Asset locations greater than $4 million

Asset	Historical Cost $	Percentage of Historical Cost in Acount 390 by Segment	Allocated Depreciation Reserve $	Percentage of Allocated Depreciation in Account 390 by Segment
Electric				
Maple Grove Service Center	$ 21,820,127	30%	$ 10,194,239	37%
Chestnut Service Center	20,615,846	28%	10,437,789	38%
Montevideo Office & Center	4,209,481	6%	505,449	2%
Shorewood Service Center	4,178,423	6%	1,150,697	4%
High-Value Structure Subtotal	**50,823,876**	**70%**	**22,288,174**	**80%**
All Other Electric Segment Structures	21,545,902	30%	5,474,228	20%
Electric Segment Total	**$ 72,369,778**	**100%**	**$ 27,762,402**	**100%**
Common				
General Office Building	$ 75,813,456	42%	$ 12,148,335	7%
Rice St Service Center	18,298,738	10%	3,110,715	2%
Maple Grove Service Center	13,147,543	7%	1,413,768	1%
Hugo Training Center	10,788,665	6%	1,052,874	1%
St Cloud Office & Service Center	8,887,203	5%	1,167,761	1%
Chestnut Service Center	7,428,488	4%	771,858	0%
Centre Pointe Office Building	6,341,418	4%	1,019,365	1%
Winona Service Center	6,106,509	3%	648,580	0%
White Bear Lake Service Center	5,459,912	3%	912,362	1%
Newport Office & Service Center	5,374,087	3%	993,858	1%
High-Value Structure Subtotal	**157,646,019**	**87%**	**23,239,475**	**87%**
All Other Common Segment Structures	23,265,134	13%	3,403,137	13%
Common Segment Total	**$ 180,911,153**	**100%**	**$ 26,642,612**	**100%**
401 Nicollet (Leased)	18,216,455		2,529,122	
Reconcile to Schedule H	**$ 199,127,607**		**$ 29,171,734**	

Note: Amounts may not sum due to rounding.

Asset locations greater than $10 million

Asset	Historical Cost $	Percentage of Historical Cost in Acount 390 by Segment	Allocated Depreciation Reserve $	Percentage of Allocated Depreciation in Account 390 by Segment
Electric				
Maple Grove Service Center	$ 21,820,127	30%	$ 10,194,239	37%
Chestnut Service Center	20,615,846	28%	10,437,789	38%
High-Value Structure Subtotal	**42,435,973**	**59%**	**20,632,028**	**74%**
All Other Electric Segment Structures	29,933,806	41%	7,130,374	26%
Electric Segment Total	**$ 72,369,778**	**100%**	**$ 27,762,402**	**100%**
Common				
General Office Building	$ 75,813,456	42%	$ 12,148,335	46%
Rice St Service Center	18,298,738	10%	3,110,715	12%
Maple Grove Service Center	13,147,543	7%	1,413,768	5%
Hugo Training Center	10,788,665	6%	1,052,874	4%
High-Value Structure Subtotal	**118,048,402**	**65%**	**17,725,691**	**67%**
All Other Common Segment Structures	62,862,751	35%	8,916,920	33%
Common Segment Total	**$ 180,911,153**	**100%**	**$ 26,642,612**	**100%**
401 Nicollet (Leased)	18,216,455		2,529,122	
Reconcile to Schedule H	**$ 199,127,607**		**$ 29,171,734**	