414 Nicollet Mall
Minneapolis, MN 55401

August 28, 2017

—Via Electronic Filing—

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

RE: REPLY COMMENTS
2017 ANNUAL REVIEW OF REMAINING LIVES
DOCKET NO. E,G002/D-17-147

Dear Mr. Wolf:

Northern States Power Company, doing business as Xcel Energy, submits the enclosed Reply Comments in response to the Comments received from the Department of Commerce and Office of the Attorney General on August 18, 2017.

We appreciate the opportunity to provide the Commission with this information. We have electronically filed this document with the Commission, and notice of the filing has been served on the parties on the attached service list. Please contact me at lisa.h.perkett@xcelenergy.com or (612) 330-6950 if you have any questions regarding this filing.

Sincerely,

/s/

LISA H. PERKETT
PRINCIPAL FINANCIAL CONSULTANT, CAPITAL ASSET ACCOUNTING

Enclosures
c: Service List

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

Nancy Lange	Chair
Dan Lipschultz	Commissioner
Matthew Schuerger	Commissioner
Katie J. Sieben	Commissioner
John A. Tuma	Commissioner

IN THE MATTER OF XCEL'S 2017 ANNUAL REVIEW OF REMAINING LIVES

DOCKET NO. E,G002/D-17-147

REPLY COMMENTS

INTRODUCTION

Northern States Power Company, doing business as Xcel Energy, submits the enclosed Reply Comments in response to the Comments received from the Department of Commerce, Division of Energy Resources (Department) and Office of the Attorney General – Residential Utilities and Antitrust Division (OAG) on August 18, 2017.

We appreciate the Department and OAG's review of our petition and provide our reply to their Comments below. We respectfully request Commission approval of our petition as filed on February 17, 2017.

REPLY TO DEPARTMENT OF COMMERCE

A. Angus Anson

The Department recommended approval of our proposed depreciation lives with one exception. Specifically, the Department opposed the Company's proposal to extend the lives of Angus Anson Units 2 and 3 by an additional five years and instead recommended that the Commission approve a remaining life of 9 years, reflecting a one-year passage of time adjustment. The Department does not appear to oppose a life extension for these units in principal but rather takes the position that any life extension should wait until referenced capital investments are closer to their expected spend dates of 2019-2022.

In support of this position, the Department cites Minnesota Power's request for a life extension of its Laskin Energy Center facility in their 2014 remaining life petition.[1] The Company agrees extending the life of a unit may not be appropriate prior to the completion of a future capital project—if that project were the sole reason for the requested extension (which appears to be the case for the Laskin Energy Center). However, in this case, our primary reason for requesting a life extension is to align the remaining lives of Angus Anson 2 & 3 with our 2015 Integrated Resource Plan, which was approved by the Commission (with modifications unrelated to Angus Anson) on January 11, 2017. That resource plan included the continued operation of Angus Anson Units 2 & 3 through 2030 because our Strategist modeling indicated that it was economic and beneficial for our customers to do so, as opposed to building new resources. Now that our resource plan has been finalized and approved by the Commission, we believe it is reasonable and appropriate to extend the lives of these units as part of this docket, and we respectfully request that the Commission approve our request.

B. Black-Start Capability

The Department also raised a potential concern regarding our Black Start plan in light of our proposal to reduce the remaining life of Granit City. We want to confirm that our black start plan has been adjusted to address this change and that we will continue to have sufficient black-start capabilities following the retirement of Granite City.

REPLY TO THE OAG

A. Cost Study

The OAG requested that the Company reconcile the TLG Services (TLG) Cost Study approved in the last remaining life filing with the Company's total expected dismantling costs. This includes both actual performance to date and the Company's internal forecast of expenditures. The Company, however, does not manage against the cost estimates provided by TLG services when performing removal activities as this is not the intended purpose of the study. The study makes this clear in its Introduction:

> The objective of this dismantling cost study prepared by TLG Services is to present an estimate of the costs to dismantle Xcel Energy's fossil-fueled and wind farm generating electrical generating facilities, plus their gas

[1] Docket No. E015/D-14-318.

> production and storage facilities, in Minnesota and South Dakota. <u>This study is not intended to be a dismantling plan for each of the stations, but a cost estimate prepared to support current financial planning for future dismantling</u> (emphasis added).[2]

In other words, the objective of the TLG study is reasonableness in total in order to establish an appropriate net salvage percentage —not item-by-item or plant-by-plant precision. Detailed information was provided in the studies to aid in verifying the reasonableness of TLG's procedures and assumptions such as periods and unit cost factors applied therein. It was not presented to provide a basis for comparison to the actual line item costs of the dismantling project. As such, we do not believe it is appropriate to perform a line-item level comparison between actual dismantling expenses and the tables provided by TLG. Indeed, there are material differences in terms of the detail provided by the TLG report compared to what is used in preparing internal forecasts for dismantling expenditures as well as the tracking of actual expenditures.

Instead, the Company proposes that the total cost estimate dollars from the TLG study be used as a basis for comparison against our actual total expenditures. The Company can then provide a description for the causes of material variances between the totals as necessary.

B. Black Dog

The OAG also expressed concern about the Company's ability to dismantle the Black Dog steam units for the amount collected based on the 2015 TLG cost estimate, citing an estimated $3.9[3] million potential deficiency based on analysis provided in their comments. The OAG expressed concerns around the comparability of the data provided in the TLG cost studies and the Company's internal records. Again, while the Company believes that TLG uses robust and accurate information to create their cost estimates, those estimates are principally intended to be viewed in total, as the specific details have the potential to change depending on the actual dismantling plan enacted. For this reason and those already discussed, the Company believes that any comparison to the study should occur at the total—rather than line-item—level.

The Company also believes that the final cost to dismantle the Black Dog facility will be reasonably close to the estimate approved in the 2015 remaining life filing. Given

[2] Section 1 Introduction, subsection 1.1 Objective of Study.
[3] 3.9 million = 68.0 - 30.9 - 33.2.

the long duration of this dismantling effort, we believe it would be premature to signal any potential deficit in funds for the project. Additionally, based on the amounts presented in the OAG's comments, the potential deficiency is approximately 6.1% of the total funds collected, which is hardly unreasonable considering the magnitude of the project and the age of the plant being dismantled.

C. Key City

Finally, the OAG has requested further explanation regarding the Company's decision to maintain the Key City generating facility in a dormant state. The Company believes that the additional costs of maintaining the plant in a dormant state and the potential increase in the dismantling cost estimate due to inflation are out-weighed by the benefit of having a source of readily available spare parts for Granite City that could be otherwise difficult to procure.

Both the Key City and Granite City facilities are GE Frame 5 units and are within the same vintage – 1970. Therefore, Key City has the potential to provide Granite City with the majority of its existing parts. In fact, the only major component that would not be interchangeable between the units is the control system. We believe it is reasonable to assume that Granite City may eventually need these components because it has become difficult to find replacement parts for generating units of that vintage and because Granite City does not have spare parts available on site for many components.

The potential risks with earlier dismantling of Key City, and losing the ability to use the facility as a source of spare parts include the difficulty of finding spare parts for sale, the potential cost of refurbishing and/ or rebuilding those spare parts as needed, and the potential for an extended outage of one or more Granite City units while any critical spare parts are found and sent for refurbishment. The Company estimates that the units could be down for eight or more months while attempting to find and refurbish components that would have otherwise taken one month to transfer and install given the availability of the Key City components. While the Company does not have any specific plans or projections as to what parts may be required, it views the availability of the Key City components as worthwhile insurance against any number of potential failures at Granite City.

The additional cost to maintain the Key City facility is also small in comparison to the costs that could be incurred by a component failure at Granite City. There is no increase in staffing cost because the Wilmarth operators perform minimal upkeep required for the Key City plant. Additional costs for maintaining the dormant facility are estimated at $1,000/month. With respect to dismantling costs, using the 2%

inflation assumption proposed in the OAG's comments in connection with the Black Dog removal, the $4.1 million estimate provided by TLG in 2014 dollars would amount to $4.5 million in 2019 dollars. This represents a $100,000 increase from today's 2017 escalated costs of $4.4 million.

The Company does not have specific plans to use the Key City components, but does see the potential risks avoided as more than offsetting the actual costs incurred to maintain the facility and the potential increase in dismantling costs due to delaying the dismantling activities.

CONCLUSION

Xcel Energy respectfully requests that the Commission approve the Company's petition as filed with an Angus Anson Units 2 & 3 remaining life of 14 years which is consistent with the Commission's January 11, 2017 IRP Order.

Dated: August 28, 2017

Northern States Power Company

CERTIFICATE OF SERVICE

I, Jim Erickson, 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 electronic filing

Docket Nos. E,G002/D-17-147

Dated this 28th day of August 2017

/s/

____

Jim Erickson
Regulatory Administrator

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