



414 Nicollet Mall
Minneapolis, Minnesota 55401

March 31, 2015

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TRADE SECRET INFORMATION REDACTED –
PUBLIC DATA**

—Via Electronic Filing—

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

Re: SHERCO 3 COMPLIANCE FILING – FINAL REPORT
DOCKET NO. E002/GR-13-868
DOCKET NO. E002/GR-12-961

Dear Mr. Wolf:

Northern States Power Company, doing business as Xcel Energy, submits this Sherco 3 Insurance Recovery Update consistent with our commitment to update the Commission in our December 31, 2013 Compliance Filing in the above referenced Dockets.

Our quarterly Insurance Recovery Updates have provided updated accounting and costs and insurance recoveries associated with the November 19, 2011 Event at the Sherburne County Generating Station Unit 3 (Sherco 3). We have now completed final project closeout activities, completed negotiations, and have finalized all aspects of the claim with our insurers. As such, this is our final compliance report in which we provide the final Restoration Project costs and insurance cost recovery information.

Trade Secret Justification

While the Company's claim amounts discussed in this filing represent actual amounts of costs incurred as of the date of the claim, insurance treatment of costs in dispute or under review is subject to further discussion between the Company and our insurers, and may change. In addition, our ability to negotiate with our insurers and resolve our claims in a manner that benefits our customers may be hampered if this information or our view of the insurers' treatment of various costs became publicly available. We have therefore

categorized cost and current coverage information contained in this filing and the accompanying attachment as trade secret under Minn. Stat. 13.37(1)(b).

We have electronically filed this document with the Minnesota Public Utilities Commission, and notice of the filing has been served on the parties on the attached service list.

Please contact me at bria.e.shea@xcelenergy.com or 612-330-6064 if there are any questions regarding this filing.

Sincerely,

/s/

Bria E. Shea
Manager, Regulatory Affairs

Enclosures
cc: Service List

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STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	Chair
Nancy Lange	Commissioner
Dan Lipschultz	Commissioner
John Tuma	Commissioner
Betsy Wergin	Commissioner

IN THE MATTER OF THE APPLICATION OF
NORTHERN STATES POWER COMPANY, A
MINNESOTA CORPORATION, FOR
AUTHORITY TO INCREASE RATES FOR
ELECTRIC SERVICE IN MINNESOTA

Docket No. E002/GR-13-868
Docket No. E002/GR-12-961

**FINAL REPORT
SHERCO 3 INSURANCE RECOVERY**

INTRODUCTION

Northern States Power Company, doing business as Xcel Energy, submits this final report on our Sherco 3 Insurance Recovery costs of the Sherburne County Generating Station (Sherco 3) restoration project (Restoration project, or the Project) consistent with our commitments in our December 31, 2013 compliance filing in this Docket.

INSURANCE RECOVERY UPDATE

As required by Order Point 9 of the Commission's Order in our 2012 electric rate case (Docket No. E002/GR-12-961) we have submitted compliance filings on a quarterly basis since December 2013 providing information updating the status of the Restoration project, pending litigation with respect to the root cause of the Event, updated forecasts for total costs of the Restoration project, and an update for insurance recovery of the restoration costs.

As discussed in detail in our 2013 rate case (Docket No. E002/GR-13-868), the restoration of Sherco 3 following the catastrophic event of November 19, 2011 (Event) was one of the largest repair efforts ever undertaken in the industry.

Our insurance claim was large and complex, involving multiple carriers. We worked with our insurers to ensure cash flow from our insurers while the Restoration project was underway, and our claim evolved as we trued up actual expenditures through monthly reports to our insurers.

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We have now completed final project closeout activities, completed negotiations, and have finalized all aspects of the claim with our insurers. As such, this update provides the final Restoration Project costs and insurance cost recovery information. We believe we incurred costs in a prudent manner that appropriately balanced the short- and long-term needs of the plant with our insurance coverage.

I. Background

In November of 2011, Sherco 3 was in the process of turbine testing while returning to service after a scheduled maintenance overhaul outage. During this process, there was a failure of the root of certain blade attachments in one of the Unit 3 low pressure turbines, due to stress corrosion cracking resulting from a design flaw. As described in more detail in the Direct Testimony of Company witness Mr. Ronald L. Brevig in our current rate case, the extensive damage resulting from this Event included vibration damage, flying debris, impact damage, contamination, fire and smoke damage, and metallurgical damage that extended from surface areas to the internal portions of equipment, structures, and systems. Following the Event, we undertook a strategic review of the impacts of the Event on Sherco 3 and developed a strategy to bring the Unit back to its pre-Event condition as quickly and safely as possible, to minimize the overall impact on our customers. Given the severity of the Event, the Restoration project ultimately required approximately 22 months.

Sherco 3 was synchronized to the electric grid producing energy and was considered returned to service on September 4, 2013. We then took the Unit offline on September 7 for an outage to address certain post-restoration items, and re-synchronized on October 10, 2013. The Unit released for MISO dispatch on October 28, 2013. Sherco Unit 3 continues to operate well.

II. Sherco 3 Litigation

As discussed in our previous compliance filings, on November 15, 2013, the Company, Southern Minnesota Municipal Power Agency, and insurers of Sherco 3 filed a joint complaint against General Electric entities to recover costs associated with the Event. On January 27, 2014, the plaintiffs to the case, including the Company, amended the complaint in response to a motion by the defendants that we make more definitive statements regarding some of our claims. The defendants have since moved to dismiss the complaint on various legal grounds. A hearing on the motion to dismiss was held on April 17, 2014 and denied on May 6, 2014. Consequently, the litigation will continue. In the interim, the parties have been conducting discovery.

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III. Final Restoration Cost Summary

In our 2013 rate case, we provided an analysis and report on the Sherco 3 total costs, insurance recoveries, and costs not covered by insurance as required by Order Point 9 through the Direct Testimony of Mr. Brevig (Sherco 3), Mr. Michael R. Anderson (insurance), Ms. Amy L. Stitt (accounting for insurance proceeds), and Ms. Lisa H. Perkett (remaining life of Sherco 3). We provided quarterly updates of this information for each quarter since our December 31, 2013 compliance filing. As of March 31, 2015, we have closed out work and completed settlement negotiations with our insurers.

In our initial rate case filing, Mr. Brevig noted that the total cost of the Restoration Project was estimated to be [TRADE SECRET BEGINS ██████████ TRADE SECRET ENDS]. Our final Restoration project cost is [TRADE SECRET BEGINS ██████████ TRADE SECRET ENDS]. A summary of these costs is set forth in Table 1.

Table 1: Final Restoration Project Cost Summary

[TRADE SECRET BEGINS

<i>Category</i>	<i>Cost (\$ millions)</i>
<i>Total Project Costs</i>	

TRADE SECRET ENDS]

A breakdown of these costs is provided in Attachment A to this filing.

The Company also requested reimbursement from the insurance companies for the excess fuel oil that was consumed during the initial startup of the unit following repairs. The insurance companies agreed to reimburse the Company for [TRADE SECRET BEGINS ██████████ TRADE SECRET ENDS] for the excess fuel oil. This amount is not included in the cost data above or on Attachment A. Of this amount, the Company's 59 percent share is [TRADE SECRET BEGINS ██████████ TRADE SECRET ENDS] when allocated to the Minnesota jurisdiction) and it will be

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refunded to the Customers through the fuel clause adjustment. The Company plans to refund this reimbursed amount¹ to customers through the monthly fuel clause charge in May 2015.

IV. Updated Insurance Coverage Report

A. Insurer Coverage to Date

As noted in previous filings, the cost recovery process we developed with our insurers involved advance assessment of scope of work and costs to be incurred for each phase of the Restoration project, followed by monthly reports detailing our actual costs incurred and associated claims for insurance coverage. As a result of this collaborative process, we obtained coverage and agreement on the large majority of costs incurred.

B. Costs Not Covered by Insurance

As evidenced below in Table 2, we included [TRADE SECRET BEGINS [REDACTED] TRADE SECRET ENDS] in our 2013 test year for costs that we anticipated would not be covered by insurance. However, due to our collaborative process and favorable negotiations, we received slightly more coverage and the final amount not covered by insurance is [TRADE SECRET BEGINS [REDACTED] TRADE SECRET ENDS] than anticipated at the time of our rate case preparations. We will include this amount in our upcoming capital true up in the 2013 Minnesota electric rate case (Docket E002/GR-13-868).

In Mr. Brevig's Direct Testimony, we identified seven categories of these costs. Our final costs for each category are set forth below:

Table 2: Cost Categories Not Covered By Insurance

[TRADE SECRET BEGINS:

<i>Cost Category</i>	<i>Direct Testimony Estimate</i>	<i>Final Cost</i>

¹ Consistent with the Company's fuel clause mechanism in Minnesota, the amount for a one-time refund is based on the jurisdictional MWh sales weighting to NSP System total. This reimbursed amount and refund is based on 2014 MWh sales weighing of 73.0489% applied to the Company's share.

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<i>Cost Category</i>	<i>Direct Testimony Estimate</i>	<i>Final Cost</i>

TRADE SECRET ENDS]

As indicated above, the changes in costs estimates reflect final insurance settlement negotiations which were more favorable to the Company than previous estimates.

The policy exclusions line item in this table includes amounts for capital improvements, adjustments due to cause and other adjustments including the corrections for the final settlement of costs.

CONCLUSION

We appreciate the opportunity to keep the Commission informed of our Sherco 3 Restoration project costs and insurance coverage. All of the work orders have been closed out. We no longer have ongoing meetings or negotiations with our insurance provider, and the final settlement amount has been determined. As such, this is our final report.

March 31, 2015

Sherco 3 Restoration
Final Project Cost

		Initial Forecast Estimate At Aug. 31, 2013	Final Cost at Completion	Difference Aug. 2013 to Final
Description				
[Trade Secret Begins]				
EQUIPMENT REPAIR/REPLACEMENT P.O.'s				
	Generator Field			
	Generator Stator			
	LP Steam Turbine Components			
	HP/IP Steam Turbine Components			
	Condenser Tubes			
	Exciter (Alterrex)			
	BOP Contracts			
	HP/IP Steam Turbine Replacement			
Totals				
CONSTRUCTION CONTRACTS				
	Turbine Generator Disassembly			
	Plant Layups (Special Construction/Maintenance)			
	Turbine Assembly			
	Electrical Construction/Repairs/Cleaning			
	Cleaning (Interstate and Special Construction)			
	Condenser Retubing			
	BOP Mechanical Construction/Repairs			
	Scaffolding			
Totals				
INDIRECTS				
	A/E Services			
	Project Management			
	OEM Field Engineers/Technical Advisors			
	Construction Management			
	Site Services			
	Other Xcel Departments/Resources			
	Project Startup / Commissioning			
	Insurance Adjustments, Overheads, Credits, P-Loads			
Totals				
TOTAL REIMBURSABLE COST				
NON-REIMBURSABLE COSTS				
	Insurance Deductible			
	Disputed Items			
	Capital Improvements*			
	Expediting Expense			
	Cause*			
	Miscellaneous			
TOTAL NON-REIMBURSABLE COST				
TOTAL PROJECT COST				

* Note that Cause and Capital Improvements are combined for Feb 2015 report

Trade Secret Ends]