MINNESOTA
DEPARTMENT OF
COMMERCE

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January 31, 2014

Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Supplemental Comments of Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E,G002/D-12-858

Dear Dr. Haar:

Attached are the Supplemental Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matter:

> Northern States Power Company's Five-Year Transmission, Distribution, and General Depreciation Study.

The Department recommends **approval, with modifications,** and is available to answer any questions the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ CRAIG ADDONIZIO
Financial Analyst

CA/sm
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET NO. E,G002/D-12-858

I. BACKGROUND

On July 31, 2012, Northern States Power Company, doing business as Xcel Energy (Xcel or the Company) filed a petition for approval of its five-year depreciation study for its transmission, distribution and general (TD&G) plant accounts (Initial Petition). In its Initial Petition, the Company proposed a number of changes to the lives and salvage rates of its TD&G plant accounts, and more significantly, Xcel proposed to switch from an average service life depreciation procedure to a remaining life procedure, which would, in effect, amortize the depreciation surplus of these accounts over their average service lives. As part of this change in depreciation procedure, Xcel proposed to redistribute the depreciation reserves of its TD&G accounts in proportion with the accounts' theoretical depreciation reserves.

On December 21, 2012, the Department filed Comments recommending that the Minnesota Public Utilities Commission (Commission) approve Xcel's proposed lives and salvage rates, the switch to a remaining life depreciation procedure, and the redistribution of the depreciation reserves of Xcel's electric TD&G plant accounts. The Department recommended that the Commission deny Xcel's request to redistribute the depreciation reserves of its gas and common TD&G plant accounts.

On January 25, 2013, Xcel filed Reply Comments in which the Company disagreed with the Department's recommendations regarding the redistribution of the depreciation reserves of the Company's gas and common TD&G plant accounts.

On February 6, 2013, the Department filed Response Comments in which it changed its recommendation regarding the redistribution of the depreciation reserves of Xcel's common accounts, but continued to oppose the redistribution for the Company's gas accounts.

On September 3, 2013, the Commission issued its Order in Docket No. E002/GR-12-961 (the 2012 Rate Case) which, in part, required Xcel to amortize the theoretical depreciation reserve surplus of its TD&G plant accounts over a period of eight years.[1]

On September 19, 2013, the Company filed its Final Rates Compliance Filing in the 2012 Rate Case, which implemented the Commission's September 3, 2013 Order.

On October 1, 2013, Xcel made a Supplemental Filing in the instant Docket modifying the proposal in the Initial Petition to implement the changes required by the Commission's 2012 Rate Case Order.

II. SUMMARY OF PROPOSAL

As noted above, in its Initial Petition, Xcel proposed to switch from the whole life method of depreciation, which it currently uses for its TD&G assets, to an effective remaining life method. The switch to an effective remaining life method of depreciation required the Company to establish and propose remaining lives for each of its TD&G accounts. The Company also proposed to begin filing depreciation studies for its TD&G assets annually, rather than once every five years, in order to comply with Minnesota Rule 7825.0600. Annual depreciation filings are required when using an effective remaining life method in order to update each account's remaining life to reflect the passage of time.

On September 3, 2013, the Commission issued its Order in the 2012 Rate Case. In its Order, the Commission denied Xcel's proposed switch to an effective remaining life depreciation method, which would have amortized the Company's theoretical depreciation surplus over the average remaining life of its plant accounts. Instead, the Commission ordered the Company to amortize its theoretical depreciation surplus over a period of eight years. As a result of the Commission's Order, the Company, in its Supplemental Filing, proposed to retain its current whole life method of depreciation, and separately amortize the depreciation surplus of its electric and common TD&G plant accounts. The Company did not propose to amortize the depreciation surplus of its gas TD&G plant accounts (although in its Initial Petition, the Company did propose to amortize its gas accounts' surpluses over the accounts' remaining lives). Additionally, in its Supplemental Filing, the Company did not propose to establish remaining lives for its plant accounts, which are not necessary with a whole life depreciation method. Lastly, Xcel proposed to continue to file TD&G depreciation studies once every five years, rather than annually.

In its Supplemental Filing, Xcel made no changes to the proposed average service lives and salvage rates included in the Initial Petition. The Company also proposed to redistribute the depreciation reserves of all of its TD&G plant accounts, as it did in its Initial Filing. The Company continued to request an effective date of January 1, 2013 for the proposed depreciation parameters and rates.

[1] See Ordering Point 11 of the Commission's September 3, 2013 Order.

In its response to Department Information Request No. (IR) 28, the Company confirmed that the depreciation methods, average service lives, net salvage rates and depreciation rates proposed in the Supplemental Filing were the same used to calculate depreciation expense in the Final Rates Compliance Filing.[2]

III. DEPARTMENT ANALYSIS

A. PROPOSED LIVES AND SALVAGE RATES

As noted above, the average service lives and salvage rates proposed in the Supplemental Filing are unchanged from the Initial Petition. Thus the Department continues to conclude, as it did in its December 21, 2012 Comments, that Xcel's proposed average service lives and salvage rates are reasonable.

B. AMORTIZATION OF THEORETICAL DEPRECIATION SURPLUS

As noted above, the Commission's Order in the 2012 Rate Case required Xcel to amortize the depreciation surplus of its electric and common TD&G assets over a period of eight years, rather than over the assets' remaining lives, as the Company had initially proposed. Based on this, the Department concludes that the proposal in the Company's Supplemental Filing, to amortize the theoretical surplus of its electric and common TD&G accounts over a period of eight years, is reasonable. The Department also concludes that Xcel's proposal to amortize only the theoretical reserve surplus of its electric and common TD&G accounts, and not the theoretical surplus of its gas accounts, is reasonable. Amortization of the theoretical surplus of the Company's gas TD&G accounts would provide an unreasonable financial benefit to the Company at the expense of ratepayers.

Schedule 1c of the Company's September 19, 2013 Final Rates Compliance Filing in the 2012 Rate Case contains an adjustment to depreciation expense of $24.9 million to reflect the Commission's Order.[3] In its response to IR 26, the Company provided a schedule showing the derivation of the adjustment.[4] The Department compared the Company's Supplemental Filing to this schedule to ensure consistency. After review, the Department concludes that the Company's final adjustment in the Final Rates Compliance Filing and the Supplemental Filing are consistent, except for the treatment of the Company's intangible accounts. The schedule provided in response to IR 26 indicates that, in its Final Rates Compliance Filing in the 2012 Rate Case, Xcel amortized the theoretical surplus of its intangible electric and common TD&G accounts over those accounts' remaining lives, rather than over the eight-year period ordered by the Commission. In Xcel's Supplemental Filing, as shown in Schedule C, the Company amortizes the theoretical surplus of these accounts over a period of eight years, as ordered by the Commission.

[2] See Department Attachment No. 1.
[3] See Schedule 1c, page 3, line 15, column 43 of the Company's Final Rates Compliance Filing.
[4] See Department Attachment No. 2.

In a January 28, 2014 telephone conversation, a representative of Xcel pointed out that that the remaining lives of those accounts are shorter than eight years, and explained that because the Commission's rationale for shortening the amortization period from the average remaining life of all TD&G assets to a period of eight years was to better match the benefits of surplus amortization with the customers that bore the disproportionate cost that created the surplus; therefore, it did not make sense to extend the amortization period of the intangible accounts.

Table 1
Comparison of Theoretical Surplus Amortization for Intangible Plant Accounts

	Jurisdictional Theoretical Reserve Difference	Amortization of Theoretical Reserve Surplus: As Calculated in Final Rates Compliance Filing	Amortization of Theoretical Reserve Surplus: Calculated with Eight-Year Amortization Period	Difference
Intangible Electric Utility	365,054	(134,395)	(45,632)	(88,763)
Intangible Common Utility	(986,138)	334,569	123,267	211,302
Total	(621,084)	200,174	77,636	122,539

Source: Department Attachment No. 2.

Table 1 compares the amount of surplus amortization included in the Final Rates Compliance Filing with the amount that would have been included had the Company used an eight-year amortization period. Taken together, Xcel's electric and common intangible accounts have a theoretical depreciation deficit of $0.6 million, not a surplus. Thus, shortening the amortization period, as Xcel did in its Final Rates Compliance Filing, increases depreciation expense. As shown, total depreciation expense included in the Final Rates Compliance Filing was $122,539 higher than it would have been had Xcel used the eight year amortization period as required by the Commission. Unless corrected, this inconsistency between the Final Rates Compliance Filing and the Supplemental Filing will lead the Company to over-collect depreciation expense, as the amount of depreciation expense built into rates is higher than the amount of depreciation expense that will be recorded by the Company. Thus, the Department recommends that the Commission require Xcel to amortize the theoretical reserve surpluses (which are negative) of its electric and common intangible accounts over those accounts' remaining lives (shown in Department Attachment No. 2), so that actual depreciation expense for those accounts matches the depreciation expense included in the Final Rates Compliance Filing.

C. REDISTRIBUTION OF RESERVES

As noted above, Xcel continues to recommend redistributing the depreciation reserves of its individual TD&G plant accounts based on the accounts' theoretical depreciation reserves. In its Response Comments in the instant Docket, the Department supported Xcel's proposal to redistribute the reserves of its electric and common utility plant accounts, but recommended that the Commission deny Xcel's request to redistribute the depreciation reserves of its gas utility plant accounts.

The primary purpose of the proposed change to a remaining life depreciation method was to amortize the Company's depreciation surplus, which would lower depreciation expense and mitigate the size of the rate increase proposed in the 2012 Rate Case. The Department supported Xcel's proposal to redistribute the depreciation reserves of its electric and common utility plant accounts because absent redistribution, the proposed switch to an effective remaining life depreciation method would result in an *increase* in depreciation expense, contrary to the primary motivation for the change in methodology.[5] However, because Xcel is now proposing to retain its current average service life method, reserve redistribution no longer serves this purpose, as depreciation expense under an average service life method is not a function of depreciation reserves.

The Department asked Xcel, in IR 27, why the Company retained its proposal to redistribute its depreciation reserves in the Supplemental Filing.[6] In its response, Xcel stated:

> Completing the transmission, distribution, and general depreciation study included several steps that resulted in calculating a theoretical reserve for each individual depreciation group (i.e., each 300 series FERC account). Once this was completed, we reallocated the depreciation reserve to smooth the differences between actual and theoretical reserves for each FERC account within a functional group. The goal was to eliminate a situation where some accounts have large theoretical reserve surpluses while others have large theoretical reserve deficits. This reallocation is helpful as it resets the depreciation reserve at the FERC account level so individual FERC accounts are not further out of balance when we do our next study.
>
> In addition, the eight-year amortization approved by the Commission was based on data we provided that included this reallocation. While the reallocation does not change the total overall theoretical reserve amount, without the reallocation of reserves, we would be amortizing a different theoretical reserve surplus or deficit than was shown for each individual FERC account in the rate case.

[5] As explained in the Department's December 21, 2012 Comments, Xcel has several plant accounts with short remaining lives that are extremely under-depreciated. For those accounts, the switch to an effective ARL depreciation method would cause significant increases in annual depreciation expense in the short-term, large enough to offset the decreases that would result for all remaining accounts.

[6] See Department Attachment No. 3.

The Department agrees that reserve redistribution would eliminate a situation where some accounts have large theoretical reserve surpluses while others have deficits, but sees no negative consequences associated with the existence of such a situation. Similarly, the Department sees no way in which reserve redistribution would be beneficial for the Company's next TD&G depreciation study.

However, while the Department sees no benefits to reserve redistribution, the Department also sees no negative consequences for ratepayers. Because the Company is now proposing to retain its current average service life deprecation method, reserve redistribution will have no impact on the Company's overall level of depreciation expense. Therefore, the Department does not oppose Xcel's proposed reserve redistribution.

IV. RECOMMENDATION

Based on its review, the Department recommends that the Commission:

- approve Xcel's proposed service lives and salvage rates;
- approve Xcel's request to retain its current whole life method of depreciation;
- approve Xcel's request to amortize the theoretical reserve surpluses of its electric and common TD&G plant accounts over a period of eight years, except for its electric and common intangible accounts;
- require Xcel to amortize the theoretical reserve surpluses of its electric and common TD&G plant accounts over the remaining lives of those accounts, as shown in Department Attachment No. 2.
- approve Xcel's request to redistribute its depreciation reserves;
- require Xcel to file a comprehensive five-year depreciation study for its transmission, distribution, and general accounts by July 31, 2017.

/sm

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Xcel Energy			
Docket No.:	E,G002/D-12-858		
Response To:	Craig Addonizio	Department of Commerce	28
Date Received:	January 13, 2014		

Question:

Reference: Depreciation Expense Included in Final Rates in Docket No. E002/GR-12-961

Please confirm that the depreciation method, average service lives, salvage rates and depreciation rates proposed in the Supplemental Filing are the same as the method, lives, salvage rates and depreciation rates used to calculate depreciation expense in the Company's September 19, 2013 Compliance Filing in Docket No. E002/GR-12-961.

Response:

We confirm that the depreciation methods, average service lives, net salvage rates, and depreciation rates proposed in the TD&G supplemental filing were the same used to calculate the depreciation expense in the rate case compliance filing. The depreciation rates for transmission, distribution, and general groups used to calculate depreciation in the rate case compliance filing are shown in our TD&G supplemental filing, Schedule A, pages 1 and 3, in the Annual Rate column.

The depreciation methods, average service lives, and net salvage rates proposed in the TD&G supplemental filing were used to calculate the 2013 test year depreciation expense we initially proposed in the rate case. The only change from our original rate case proposal was in the amortization period for theoretical reserve differences, which were changed from the average remaining life of the assets to eight-years. The adjustment to 2013 test year depreciation resulting from this change is shown on Page 3, line 15, column 43 of Schedule 1c to our rate case compliance filing. Attachment A to our response to DOC-26 provides the calculation of this adjustment.

Response By: Brandon Kirschner
Title: Senior Accounting Analyst
Department: Capital Asset Accounting
Telephone: (612) 215-5361
Date: January 24, 2014

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Xcel Energy			
Docket No.:	E,G002/D-12-858		
Response To:	Craig Addonizio	Department of Commerce	26
Date Received:	January 13, 2014		

Question:

Reference: Amortization of Theoretical Reserve Surplus for Common Assets

On page 1 of the Supplemental Filing, Xcel states "In its September 3, 2013 Order, the Commission required the Company to amortize the theoretical reserve surplus for Transmission, Distribution, and General plant for both the electric and common assets over eight years."

a) The Commission's Order references a $265 million surplus for TD&G assets, which is the theoretical surplus for Xcel's electric TD&G assets only, and does not include the surplus for common assets (see Schedule 1 of the Direct Testimony and Schedules of Jeffry Pollock in Docket No. E002/GR-12-961). Please identify the specific language in the Commission's Order which requires the Company to amortize the reserve surplus of its common TD&G assets.

b) Please explain whether the depreciation expense included in the Company's September 19, 2013 Compliance Filing in Docket No. E002/GR-12-961 reflects the amortization of the theoretical surplus of the Company's common TD&G assets. Please either identify where this calculation can be found in the compliance filing or provide a schedule showing the derivation of the depreciation expense included in the Compliance Filing.

Response:

a) The Commission's rate case order does not specifically address amortization of theoretical reserve differences for common TD&G assets. The $265 million referenced in the Commission's order is the reserve surplus for electric assets only. However, our initial proposal in the rate case also included amortization of the reserve difference for the electric portion of common assets (-$4 million), resulting in a net reserve surplus of $261 million for the electric business. Our initial rate case proposal was to amortize the $261 million over the remaining lives of the assets.

The discussion in the rate case was around the time period over which to amortize the reserve surplus – we proposed amortization over the remaining lives of the assets, and the Commission's order required amortization over eight years. Because there was no discussion of or disallowance of amortization of the depreciation reserve difference for common assets, we understood the Commission's order as requiring amortization of the net reserve surplus for the electric business that we presented in our case ($261 million) over eight years.

We note that our original proposal in the rate case was to amortize the differences over the remaining lives of the assets in each respective functional class, which for the common assets was 8.67. Complying with the Commission's order required an adjustment to amortize the common asset piece over eight years instead of 8.67 as originally proposed.

This adjustment for common assets resulted in an increase in 2013 test year depreciation of $28,849 compared to what we had initially proposed in the rate case. The majority of the total depreciation adjustment of $24.9 million noted in part (b) below was related to our electric assets.

b) Our proposed 2013 test year depreciation in this rate case included the amortization of the theoretical reserve to actual reserve differences for both electric and common utility over the average remaining lives of assets in each respective asset account. When the Commission approved the alternate method of amortizing the differences over eight years, an adjustment to depreciation was required. This adjustment to depreciation was a reduction of approximately $24.9 million. This adjustment can be seen in our rate case compliance filing on Page 3, line number 15, column 43 of Schedule 1c. Please see Attachment A to this response for the calculation of this adjustment.

Response By:	Brandon Kirschner
Title:	Senior Accounting Analyst
Department:	Capital Asset Accounting
Telephone:	(612) 215-5361
Date:	January 24, 2014

Northern States Power Company
Theoretical Reserve Differnces Amortization
Proposed and Approved

Electric and Common Utility

			Proposed	Approved	
Functional Class	Jurisdictional Theoretical Reserve Difference	Average Remaining Life	Reserve Difference over Remaining Life	Reserve Difference over Eight Years	Compliance Filing Adjustment
Electric Utility					
Intangible	365,054	2.72	(134,395)	(134,395)	-
Transmission	149,597,398	47.31	(3,162,253)	(18,699,675)	(15,537,422)
Distribution	109,362,353	24.08	(4,541,220)	(13,670,294)	(9,129,074)
General	5,888,716	12.49	(471,511)	(736,090)	(264,578)
Total - Electric Utility	265,213,521		(8,309,379)	(33,240,454)	(24,931,075)
Common Utility					
Intangible	(986,138)	2.95	334,569	334,569	-
General	(2,988,537)	8.67	344,718	373,567	28,849
Total - Common Utility	(3,974,674)		679,287	708,136	28,849
Total - Electric and Common Utility	261,238,846		(7,630,092)	(32,532,318)	(24,902,225)

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Xcel Energy			
Docket No.:	E,G002/D-12-858		
Response To:	Craig Addonizio	Department of Commerce	27
Date Received:	January 13, 2014		

Question:

Reference: Redistribution of Reserves

Given Xcel's decision to retain its whole life depreciation methodology and amortize its reserve surplus separately over a fixed period of eight years (rather than each account's remaining life), redistribution of the Company's existing depreciation reserves will have no impact on depreciation expense. Please explain why Xcel continues to propose to redistribute its depreciation reserves.

Response:

Completing the transmission, distribution, and general depreciation study included several steps that resulted in calculating a theoretical reserve for each individual depreciation group (*i.e.*, each 300 series FERC account). Once this was completed, we reallocated the depreciation reserve to smooth the differences between actual and theoretical reserves for each FERC account within a functional group. The goal was to eliminate a situation where some accounts have large theoretical reserve surpluses while others have large theoretical reserve deficits. This reallocation is helpful as it resets the depreciation reserve at the FERC account level so individual FERC accounts are not further out of balance when we do our next study.

In addition, the eight-year amortization approved by the Commission was based on data we provided that included this reallocation. While the reallocation does not change the total overall theoretical reserve amount, without the reallocation of reserves, we would be amortizing a different theoretical reserve surplus or deficit than was shown for each individual FERC account in the rate case.

Response By: Brandon Kirschner
Title: Senior Accounting Analyst
Department: Capital Asset Accounting
Telephone: (612) 215-5361
Date: January 24, 2014

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

Minnesota Department of Commerce
Supplemental Comments

Docket No. E,G002/D-12-858

Dated this **31st** day of **January 2014**

/s/Sharon Ferguson

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