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 A COMMISSION INVESTIGATION INTO XCEL ENERGY'S MONTICELLO LIFE-CYCLE MANAGEMENT/ EXTENDED POWER UPRATE PROJECT AND REQUEST FOR RECOVERY OF COST OVERRUNS	Docket No. E002/CI-13-754 PETITION REQUESTING LIMITED RECONSIDERATION AND CLARIFICATION

INTRODUCTION

Northern States Power Company, doing business as Xcel Energy, respectfully submits this limited Request for Reconsideration and Clarification of the Minnesota Public Utilities Commission's May 8, 2015 Order regarding the Monticello LCM/EPU Program.[1]

The Company has had an opportunity to analyze the Commission's Order, and although we advocated for a different outcome in these proceedings, we recognize the challenging nature of this proceeding. While we appreciate that we did not anticipate the full costs of the Program or effectively communicate those changes with our stakeholders, we remain confident that the work at Monticello was needed to safely and reliably operate an important carbon-free baseload resource through at least 2030.

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[1] *In the Matter of a Commission Investigation Into Xcel Energy's Monticello Life-Cycle Management/Extended Power Uprate Project and Request for Recovery of Cost Overruns*, ORDER FINDINGS IMPRUDENCE, DENYING RETURN OF COST OVERRUNS, AND ESTABLISHING LCM/EPU ALLOCATION FOR RATEMAKING PURPOSES, Docket No. E-002/CI-13-754 (May 8, 2015) ("Order").

The work we did created a resource that was cost-effective even with the increases, and with the uprate will further reduce carbon emissions on our system consistent with state energy policy. We believe that the record in this case could support significantly greater recovery than has been allowed by the Commission. But we also believe we have reached an important fork in the road on our regulatory journey – one path continues the disagreement over whether our actions are prudent and prolongs uncertainty; the other path focuses on looking ahead at how we and our stakeholders can work together to face the ever more challenging NRC environment faced by our plants while taking the lessons learned from this experience and using them as opportunities for the future. Even though we disagree with several of the findings and conclusions in the Order, and are concerned with the resulting financial consequences of the Commission's decision since it impairs Monticello, as an asset, for the next sixteen years, we believe taking the latter path is most beneficial at this time. We therefore limit this request to two narrow issues that we believe are consistent with the policy basis of the Commission's Order.

First, we respectfully ask the Commission to allow the Company to recover our cost of debt for the Program costs that exceed the escalated certificate of need estimate. We appreciate the Commission allowing the Company to recover its actual investments in the Program. And while we accept the Commission's policy judgment that the Company should not earn a profit on the cost increases described in this record, we respectfully note that the cost of debt is an expense and not profit. Although the cost of debt is calculated as a component of the Company's overall rate of return, it is an actual and unavoidable cost of carrying out the Monticello LCM/EPU Program. As such, we believe that recovery of these costs is consistent with allowing the Company to recover our investment in Monticello without any profit on that investment.

Second, we request that the Commission specify the initial cost estimate for the Monticello Program. Calculation of the "no (or limited) return" outcome requires a differential between the Company's initial cost estimate escalated to 2014 dollars with AFUDC, compared to the final costs of the Program with AFUDC of $748 million.[2] However, the Order does not identify the amount approved by the Commission as the initial cost estimate with escalation and AFUDC. We recognize that the Addendum to Staff Briefing Papers (Hearing Exhibit) filed on May 7, 2015, identify a total escalated initial cost of $415 million, and do not take issue with that calculation here. Rather, we recognize that Staff's calculation is rooted in the record, and therefore only request clarification that this is the total initial cost to be utilized to calculate the Commission's selected remedy.

A. Standard of Review

This Limited Request for Reconsideration and Clarification meets the Commission's standards as set forth in Minn. R. 7829.3000. Commission action on this request will help to ensure that our calculation of the impact of the Monticello proceeding is correct, equitable, and consistent with the Commission's intent. Providing our requested clarifications will also help facilitate implementation of final rates in our current rate case and bring this proceeding to a reasonable conclusion. We appreciate the Commission's attention to these important issues.

B. Discussion

We recognize the Commission's concerns regarding the cost increases incurred for the Program and the Company's communications about those increases, and have learned important lessons about regulatory expectations. While supporting the work we did and the resulting long-term benefits, we further acknowledge that management

[2] Order at 7 and n.10.

of such a complex Program could not be and was not perfect. Each of these factors is noted in the Commission's Order.

The Commission's Order is also clear that we did not meet certain expectations. Our focus on the needs of the plant and complex industry issues, as well as our understanding of regulatory communication requirements, may have hindered our ability to recognize the need for additional regulatory communication of Program cost increases. We learned important lessons regarding regulatory expectations and the importance of communicating transparently about our costs, alternatives considered, and records, and began applying these lessons to subsequent programs (such as the Prairie Island EPU). We will continue to apply those lessons in future Company endeavors, keeping the Commission more apprised of cost increases for substantial projects. At the same time, it is important to note that the Company was always focused on the reliability, safety, and long-term life of Monticello. We appreciate recognition of these efforts in the Commission's Order. This focus enabled us to provide details regarding our project management choices and reasoning, to demonstrate the value to our customers of completing the Program, and to explain our approach to regulatory communications through our rate cases and regulatory updates. In particular, we were able to explain what work was done and why, and provide uncontested testimony that we completed the right modifications for the long-term needs of Monticello. We also discussed why we believed cost increases were not reasonably avoidable even under different project management approaches advocated by other Parties, and offered unrebutted testimony that the issues faced at Monticello were alike and unavoidable throughout the industry.

In implementing the LCM and EPU programs, the substantial evolution in nuclear regulation, customer demand, craft labor availability, and the nuclear industry unfolded progressively while construction was underway. This substantially complicated the work at Monticello. Because large scale construction programs – and particularly nuclear programs – have long lead times, they necessarily impacted the Program in unavoidable ways. For example, customer demand did change following the Great Recession, but longer-term impacts were not known until the Program was well underway (years after the 2008-2009 timeframe) and long lead-time equipment needed for future work had already been ordered. As a result, our ability to moderate or change the Monticello Program or reduce costs was limited in many respects.

Even so, we respectfully submit that the Commission and our stakeholders can be comfortable that even if Monticello LCM/EPU costs had been fully anticipated in 2008 (when the Company presented the Monticello EPU Certificate of Need request to the Commission), preserving and expanding generation at Monticello would have been the most cost-effective resource choice by a large margin. Whether taking the Program as a whole, or applying the Commission's adopted LCM/EPU split to the Department's cost-effectiveness analysis, selection of the Monticello Program would have been no different if we had the information needed to provide a more complete cost estimate earlier in the Program.

For the Company, the outcome of these prudence proceedings presents real challenges. In 2011, the Company presented the Commission with a Stipulation agreeing to a future prudence investigation of the Monticello LCM/EPU Program in light of identified cost increases at the time. Since then, a significant portion of Program costs have not been fully recovered through rates. Further, the Commission's decisions regarding both the "used and useful" and prudence aspects of the Monticello Program have had a further impact on the timing of cost recovery, and precluded recovery of a return on cost increases that, in many cases, were incurred beyond our control. Allowing no return on the full cost increase adds to the financial pressure on this important asset, with a 2015 Minnesota jurisdictional revenue requirement impact of $18 million.[3] This outcome creates considerable concern as we continue to navigate an increasingly stringent NRC regulatory environment, industry cost pressures, and our own resource planning needs and State policy goals.

Overall, we recognize the Commission's concerns and have concluded that it is important for us to focus on a future of improved regulatory communications, the long-term success of our nuclear fleet, and other critical issues that are before us. This success will involve a better understanding of the increased complications of operating nuclear plants in today's environment and the steps we are taking to respond. At this time, it is our primary goal to support Monticello and our nuclear fleet as key continuing baseload resources for our customers and linchpins of the policy objectives set forth in our 2015 Upper Midwest Resource Plan.

Our request for reconsideration and clarification is therefore limited to a request for recovery of our cost of debt, consistent with the Commission's conclusion that it is appropriate for the Company to recover actual investments in the Program. We also seek clarification that the Commission's Order adopts Staff's calculation of the initial Program costs.

1. *Recovery of Cost of Debt*

In assessing the proper remedy for the Monticello LCM/EPU cost increases, the Commission determined that the Company should be allowed to recover "its actual investment in the plant" but no return on costs exceeding the initial Program cost estimate escalated to 2014 dollars.[4] We respectfully submit that the cost of debt represents actual Company cash outlays in the plant that are not different than cash outlays for equipment or labor. Because recovery of the cost of debt is consistent

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[3] This amount will then decline slightly each subsequent year as the asset depreciates.
[4] Order at 22, 23.

with recovery of actual Program investments and with precluding recovery of any profit on the investment, we request that the Commission reconsider its Order to the extent necessary to permit the Company to recover our cost of debt for the overall Program.

The rate of return a Company is permitted to recover in rates includes both the cost of equity and the cost of debt.[5] References to a "return" can therefore be ambiguous, relating at some times to a return *of* costs (e.g., the cost of the investment and in our view, the cost of debt) and other times to a return *on* equity or investment.

While the cost of equity component of the overall rate of return represents a return *on* the investment and compensation for risk incurred by shareholders, the cost of debt is an actual cost resulting from incurring debt. Shareholders do not profit from the cost of debt portion of the Company's cost of capital, as shareholders "are entitled to a return only on equity and not on debt."[6] Rather, the cost of debt is a fixed expense, and debt financing requires the Company to pay debt holders "a fixed sum on a fixed schedule."[7] Further, the Company does not pay dividends to shareholders until "all other expenses – including interest due to bondholders – have been paid."[8]

Because the cost of debt is a fixed expense, we believe there is tension in the Order between allowing the Company to recover its investments in the Program on the one hand while "deny[ing] the Company any return on the overrun" on the other hand. We recognize and understand that the Commission seeks to hold our shareholders accountable for the cost increases by denying them a return on the capital invested.

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[5] *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603 (1944) ("It is important that there be enough revenue not only for operating expenses but also for the capital cost of business. These include service on the debt and dividends on the stock.").
[6] *Northwestern Bell Telephone Co. v. State*, 216 N.W.2d 841, 850 (Minn. 1974).
[7] *In re Application of Otter Tail Corp. d/b/a Otter Tail Power Company for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-017/GR-07-1178, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER, at 44 (Aug. 1, 2008), *reh'g granted*, ORDER ON RECONSIDERATION (Oct. 31, 2008) (Reconsidered other issues).
[8] *Id.*

Permitting return of the fixed cost of debt would be consistent with allowing recovery of our investment in the Monticello Program without creating profit for shareholders.

Perhaps more importantly, we believe this outcome is appropriate in light of the Commission's findings that the Company incurred cost increases for some reasons beyond its control, focused on safety, provided value to customers, and preserved this important nuclear generation asset for the future.[9]

Commission Staff noted in briefing papers that the Department proposed Company recovery of the cost of debt (but not the return on equity) as an alternative remedy in this proceeding. Staff also suggested that the record in this case does not specify a weighted cost of debt and refers to the 2014 weighted cost of debt utilized for the Prairie Island EPU in the current rate case.[10] We respectfully refer the Commission to Ms. Nancy Campbell's Surrebuttal Testimony, which contains a schedule identifying the 2015 weighted cost of debt as 2.27 percent.[11] Applying a 2.27 percent weighted cost of debt to the difference between the initial cost estimate of $415 million (representing escalation to 2014 dollars with AFUDC) and the comparable $748 million final cost, the 2015 revenue requirement impact of not recovering the full rate of return would still be $14.2 million.[12]

This outcome would allow recovery of the Company's actual investment in the Program, while still precluding any profit and requiring the Company to incur a substantial impact to a critical baseload asset. Given the value Monticello and the

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[9] Order at 22.
[10] *Addendum to Staff Briefing Papers from Commission Deliberations*, Docket No. E-002/CI-13-754 (filed May 7, 2015 as Document ID 20155-110186-01) ("Addendum to Briefing Papers").
[11] Ex. 315, Campbell Surrebuttal at 37-38 and Schedule NAC-S-4, Attachment B p. 1 of 1. The Company's April 24, 2015 Preliminary Compliance Filing in the pending electric rate case, with which the outcome of this prudence investigation will be integrated, also identifies the 2015 weighted cost of debt as 2.27 percent. Preliminary Compliance Filing at Schedule A3, p. 1 of 1, Docket No. E002/GR-13-868 (April 24, 2015).
[12] Please see Attachment A to this Petition for the calculation of this amount.

Program will provide to customers for the next 15 years and potentially beyond, the Company respectfully requests permission to recover our cost of debt for the project.

2. Calculation of Initial Cost Estimate

The Commission states in its Order that "no disallowance is necessary in this prudence review but that Xcel will not be allowed a return on the expenses exceeding the initial figures provided in its certificate-of-need filings, escalated to 2014 dollars."[13] Commission Staff provided a helpful summary of Staff's initial cost calculation and difference from final costs in Briefing Papers, and it has been our understanding that the Commission accepted these calculations during deliberations. However, the Order does not specify the amount of the "initial figures… escalated to 2014 dollars" that should be compared to final Program costs of $748 million in order to determine the cost increases that will not earn a return.

We have determined that the various aspects of Staff's calculation are discernible from the record in this case. We agree that the final cost of the Program with AFUDC was approximately $748 million.[14] We also recognize that Commission Staff provided a calculation of the difference between "(a) the actual project cost plus AFUDC ($748 million), and (b) the initial project estimates in 2005 (LCM) and 2008 (EPU) expressed in 2014 dollars plus AFUDC ($415)…"[15] As discussed during Commission deliberations, each aspect of Staff's approach can be tracked to various parts of the record.

For purposes of this proceeding, we accept Staff's calculation of the escalation and AFUDC needed to state initial cost estimates from the 2005 and 2008 Certificates of

[13] Order at 26, Order Point 4.
[14] Order at 7 and n.10; Ex. 315, Campbell Surrebuttal at 19 (also citing Ex. 9, O'Connor Rebuttal at 10-11). As the Commission notes in its Order, certain vendor invoices remain in dispute, and any amounts saved will be credited to customers following future compliance filings. Order at 24.
[15] *Addendum to Briefing Papers* at n.1.

Need in 2014 dollars.[16] We further agree with Staff that it is necessary to add AFUDC to the $360 million initial cost estimate to make an "apples to apples" comparison to the $748 million final cost with AFUDC. Consequently, our request for clarification is limited to seeking confirmation that $415 million is the correct amount of the initial cost contemplated in the Order for purposes of comparison to the $748 million final cost. Because this initial cost amount is key to the Company's calculation of the proper financial impact of the Order, we respectfully ask that the Commission clarify the appropriate "all-in" initial cost estimate.

CONCLUSION

For the reasons stated above, the Company respectfully requests recovery of the Company's cost of debt for the Program and clarification of the Commission's Order with respect to calculation of the initial cost estimate.

Dated: May 28, 2015

Respectfully submitted,

By */s/Alison C. Archer*

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ATTORNEYS FOR NORTHERN STATES POWER COMPANY

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[16] The calculation of the escalated cost without AFUDC is set forth in the Addendum to Staff Briefing Papers. Staff also notes that AFUDC totaled approximately $55 million, which is consistent with Ex. 15, Alders Surrebuttal at 15 as appropriately corrected to reflect the Company's initial escalated cost estimate with AFUDC of $453 million ($397.5 million escalated cost plus $55.5 million AFUDC = $453 million).

Adjustment Calculations
Amounts in $000s

		No Return in 2015 on $333m		Weighted Debt Return in 2015 on $333m	
			73.9969%		73.9969%
		Adjusted	After I/A	Adjusted	After I/A
	Rate Analysis	Total Co	MN Jur	Total Co	MN Jur
1	Plant Investment	(320,404)	(237,089)	(320,404)	(237,089)
2	RWIP	(12,596)	(9,321)	(12,596)	(9,321)
3	Plant plus RWIP	(333,000)	(246,410)	(333,000)	(246,410)
4	Depreciation Reserve w/o RWIP	(51,290)	(37,953)	(51,290)	(37,953)
5	CWIP	-	-	-	-
6	Accumulated Deferred Taxes	(60,534)	(44,793)	(60,534)	(44,793)
7		(221,176)	(163,663)	(221,176)	(163,663)
8					
9	Average Rate Base	(221,176)	(163,663)	(221,176)	(163,663)
10					
11	Debt Return	(5,021)	(3,715)	-	-
12	Equity Return	(11,280)	(8,347)	(11,280)	(8,347)
13	Current Income Tax Requirement	(7,959.28)	(5,889.62)	(7,959.28)	(5,889.62)
14					
15					
16	Book Depreciation	-	-	-	-
17	Annual Deferred Tax	-	-	-	-
18	ITC Flow Thru	-	-	-	-
19	Tax Depr & Removal Expense	-	-	-	-
20	AFUDC Expenditure	-	-	-	-
21	Avoided Tax Interest	-	-	-	-
22	Total Revenue Requirement Adjustment	(24,260)	(17,952)	(19,239)	(14,236)

At Newly Authorized

Capital Structure	**Rate**	**Ratio**	**Weighted Cost**
Long Term Debt	**4.9400%**	**45.6100%**	**2.2500%**
Short Term Debt	**1.1200%**	**1.8900%**	**0.0200%**
Preferred Stock	**0.0000%**	**0.0000%**	**0.0000%**
Common Equity	**9.7200%**	**52.5000%**	**5.1000%**
Required Rate of Return			**7.3700%**
PT Rate			
Tax Rate (MN)	**41.3700%**		