

October 13, 2017

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota, 55101-2147

RE: **Response Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E,G002/D-17-581

Dear Mr. Wolf:

Attached are the Response 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 petition was filed on July 31, 2017 by:

Lisa Perkett
Principal Financial Consultant
Xcel Energy
414 Nicollet Mall, 4th Floor
Minneapolis, MN 55401

The Department modifies its initial recommendation to clarify requirements included in the initial recommendations for approval. The Department is available to answer any questions the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ CHARLES AMEVO
Financial Analyst

CA/ja
Attachment



Before the Minnesota Public Utilities Commission

Response Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E,G002/D-17-581

I. SUMMARY OF PROPOSAL

On July 31, 2017, Northern States Power Company, doing business as Xcel Energy (Xcel or the Company) filed a five-year depreciation study (the 2017 Depreciation Study) for its transmission, distribution and general plant accounts for its electric, gas, and common utilities.

On September 29, 2017, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed Comments recommending approval of Xcel's Petition. Specifically, the Department recommended that the Minnesota Public Utilities Commission (Commission):

- **Approve** Xcel's proposed depreciation lives and rates in the 2017 Depreciation Study, effective January 1, 2018;
- **Approve** Xcel's request to change from an average service life (ASL) depreciation method to an effective average remaining life (ARL) depreciation method;
- **Require** Xcel to file a comprehensive five-year depreciation study for its transmission, distribution, and general accounts by July 31, 2022; and
- **Require** Xcel to return the net decrease in depreciation expense due to the change in the depreciation method to ratepayers in the 2018 capital true-up filing in Docket No. E002/GR-15-826.

On October 10, 2017, the Company filed Reply Comments suggesting clarifying edits to the Department's initial recommendations for approval.

II. DEPARTMENT RESPONSE TO XCEL

A. SUMMARY OF XCEL'S POSITION

As noted above, Xcel suggested clarifying modifications to the requirements included in the Department's initial recommendation for approval. In its Reply Comments, Xcel suggested that the Department's proposed requirements be modified as follows:

- **Require** Xcel to file an annual update of remaining lives and depreciation rates for its transmission, distribution, and general accounts by July 31, 2018 and file a comprehensive five-year depreciation study for its transmission, distribution, and general accounts by July 31, 2022; and
- **Require** Xcel to return the electric utility and the electric portion of the common utility net decrease in depreciation expense due to the change in the depreciation method to ratepayers in the 2018 capital true-up filing in Docket No. E002/GR-15-826.

B. DEPARTMENT ANALYSIS

In relation to the Company's suggested annual update of remaining lives and depreciation rates, and as noted in the Department initial comments on page 7, with the remaining life depreciation method, the annual depreciation expense is calculated as follows:

$$\text{Depreciation Expense} = \frac{\text{Plant Balance} \times (1 - \text{Salvage Rate}) - \text{Actual Depreciation Reserve}}{\text{Remaining Life}}$$

The denominator (Remaining Life) in the formula above changes year after year to reflect the passage of time. And as the remaining life changes, the corresponding depreciation rate changes as well. The formula in the remaining life depreciation method therefore implies an annual update of both the assets' remaining lives and the depreciation rates.

The Department notes that the clarifying modification suggested by the Company is appropriate, adjusted to replace "by" with "beginning" to better reflect the intent of requiring annual filings. Therefore, the Department recommendation is for the Commission to:

Require Xcel to file an annual update of remaining lives and depreciation rates for its transmission, distribution, and general accounts beginning July 31, 2018, and to file a comprehensive five-

year depreciation study for its transmission, distribution, and general accounts by July 31, 2022.

Concerning the Department's recommendation regarding how to return the net decrease in depreciation expense due to the change in depreciation method, the Department agrees that the recommendation requiring use of the 2018 capital true-up filing in Docket No. E002/GR-15-826 to capture the reduction only applies to the electric plant. Therefore, the Department agrees that the suggested clarifying modification is appropriate.

III. RECOMMENDATIONS

The Department appreciates Xcel's clarifying modifications to our initial recommendations. The Department now recommends that the Commission:

- **Approve** Xcel's proposed depreciation lives and rates in the 2017 Depreciation Study, effective January 1, 2018;
- **Approve** Xcel's request to change from an average service life (ASL) depreciation method to an effective average remaining life (ARL) depreciation method;
- **Require** Xcel to file an annual update of remaining lives and depreciation rates for its transmission, distribution, and general accounts beginning July 31, , 2018, and to file a comprehensive five-year depreciation study for its transmission, distribution, and general accounts by July 31, 2022; and
- **Require** Xcel to return the electric utility and the electric portion of the common utility net decrease in depreciation expense due to the change in the depreciation method to ratepayers in the 2018 capital true-up filing in Docket No. E002/GR-15-826.

/lt

CERTIFICATE OF SERVICE

I, Linda Chavez, hereby certify that I have this day served copies of the following document on the attached list of persons by electronic filing, 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 – RESPONSE COMMENTS

Docket Nos. **E,G002/D-17-581**

Dated this **13th** day of **October, 2017**.

/s/Linda Chavez

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