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February 6, 2013

Burl W. Haar  
Executive Secretary  
Minnesota Public Utilities Commission  
121 7<sup>th</sup> 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-12-858

Dear Dr. Haar:

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, 2012 by:

Lisa Perkett  
Director, Capital Asset Accounting  
Xcel Energy  
414 Nicollet Mall, 4<sup>th</sup> Floor  
Minneapolis, MN 55401

The Department modifies its initial recommendation of limited approval to include Northern States Power Company's request to redistribute the depreciation reserves of its common plant accounts. The Department is available to answer any questions the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ CRAIG ADDONIZIO  
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-12-858

**I. SUMMARY OF PROPOSAL**

On July 31, 2012, Northern States Power Company, doing business as Xcel Energy (Xcel or the Company) filed a five-year depreciation study (the 2012 Depreciation Study) for its transmission, distribution and general plant accounts for its electric, gas, and common utilities.

On December 14, 2012, the Xcel Large Industrials (XLI) filed comments seeking to ensure that the Minnesota Public Utilities Commission's (Commission) decision in the instant Docket will not limit the Commission's authority to address depreciation in Xcel's current rate case (Docket No. E002,GR-12-961).

On December 21, 2012, the Department filed Comments recommending limited approval of Xcel's Petition. Specifically, the Department recommended that the Minnesota Public Utilities Commission:

- **Approve** Xcel's proposed average service lives, remaining lives and salvage rates, as well as the resulting depreciation rates;
- **Approve** Xcel's request to change from an average service life (ASL) depreciation method to an effective average remaining life (ARL) depreciation method;
- **Approve** Xcel's request to redistribute the depreciation reserves of its electric accounts by functional group;

- **Deny** Xcel's request to redistribute the depreciation reserves of its gas and common accounts;
- **Require** Xcel to file a transmission, distribution and general plant depreciation study update by July 31, 2014; and
- **Require** Xcel to file a comprehensive five-year depreciation study for its transmission, distribution, and general accounts by July 31, 2017.

On January 25, 2013, the Company filed Reply Comments disagreeing with the Department's recommendation to deny Xcel's request to redistribute the depreciation reserves of its gas and common accounts. Additionally, Xcel's Reply Comments addressed the concerns raised in XLI's comments.

## **II. DEPARTMENT RESPONSE TO XCEL**

### **A. SUMMARY OF XCEL'S POSITION**

As noted above, Xcel disagrees with the Department's recommendation to deny the Company's request to redistribute the depreciation reserves of its common and gas assets. In its Reply Comments, Xcel's main arguments are:

- The change to an average remaining life methodology is an appropriate trigger point to reallocate depreciation reserves to correctly set depreciation rates for all assets.
- Depreciation changes outside of rate cases have been allowed in Minnesota as reflective of the best information available at the time.
- Requiring that depreciation changes occur only in a rate case test year would force the Company to file simultaneous electric and gas rate cases in order to make depreciation changes to common assets.
- The Department and the Commission have encouraged coordination of changes with rate cases where possible, but this does not preclude changes outside of rate cases. Xcel states that it is open to a discussion with the Commission if such a formal policy change is preferred.

- Even if the Commission were to decide that reserve redistribution is inappropriate outside of a rate case, redistribution of common asset reserves is appropriate during the current electric rate case because a large majority (between 80 and 93%) of common plant depreciation expense is allocated to electric utility operations.

On pages two and three of its Reply Comments, the Company states:

We believe it is appropriate to redistribute the depreciation reserves for all electric, gas, and common assets concurrent with this methodology change to **correctly** set depreciation rates for all assets based on all factors underlying this new methodology....

... Redistribution at this time also allows for depreciation rates to be set consistent with the actual expected lives of the assets. Approval of our proposal, including the redistribution of the depreciation reserve, allows all components factored into the depreciation rate determination to be changed at the same time without isolating one component for a future period [**emphasis added**].

#### *B. DEPARTMENT ANALYSIS*

The Department is swayed by Xcel's argument regarding the reallocation of common reserves, but maintains its recommendation that the Commission deny Xcel's request to reallocate its gas accounts' reserves.

Xcel was correct in asserting that the Department encourages coordination of depreciation changes with rate cases; indeed, the Department has challenged proposals from utilities to dramatically reduce depreciation expense immediately after concluding rate cases.<sup>1</sup> However, the Company was incorrect in asserting that the Department is universally opposed to depreciation changes outside of rate cases. The Department also disagrees with the Company's claim that denial of its request to redistribute its gas reserves would represent a "formal policy change" by either the Department or the Commission.<sup>2</sup> The Department's position in the instant Docket directly contradicts this notion; the Department supports all of the Company's proposed parameter changes, as well as the proposed switch to a remaining life depreciation methodology, both of which represent significant depreciation changes, despite the fact that Xcel does not have a current or imminent gas rate case.

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<sup>1</sup> See, for example, Docket No. G007/011/D-12-533.

<sup>2</sup> Xcel's Reply Comments, page 2

As described in the Department's Comments, our main concern with reserve redistribution in general is the large impact it can have on annual depreciation expense, which, if implemented outside of a rate case, could provide an unreasonable financial benefit to a utility at ratepayers' expense. Outside of the potential cost reduction, reserve redistribution would serve little purpose other than making a utility's depreciation accounting appear slightly cleaner, as each account's depreciation reserve would better reflect its depreciation parameters (i.e. life and salvage rate). However, the proposed switch to an effective ARL depreciation method would, over time, achieve the same result.

Additionally, the Department notes that with remaining life depreciation, an account's depreciation rate is a function of its depreciation parameters (i.e. remaining life and salvage rate) as well as its accumulated depreciation reserve. Therefore, an account's parameters are no more important than its reserve. Depreciation rates would certainly be *different* if reserves are not redistributed, but there is no sense in which they would be *incorrect*. Rather, depreciation rates reflecting reserves that were not redistributed would accurately reflect the accounts' average service lives, salvage rates, and depreciation reserves.

Xcel's proposed changes to its depreciation parameters are supported by engineering and statistical analyses that reflect the best and most current information available. If the Company's average service lives, remaining lives, and salvage rates are not updated to reflect the results of its 2012 Depreciation Study, those parameters would not reflect the best available information, and in this sense, would be incorrect. For this reason, the Department supports the new parameters.

However, the same logic does not apply to the proposed reserve redistribution. While the appropriate basis for determining lives and salvage rates is in forward-looking analyses, the appropriate basis for determining depreciation reserves is by examining the amount of depreciation expense from prior years. The Company's current gas account depreciation reserves represent accumulated depreciation expense from prior years; the depreciation expense in prior years was determined by Commission-approved depreciation rates which reflected the best information available at the time they were set. Thus, in this sense, reserve redistribution is contrary to prior Commission orders, and therefore should only be done with good reason. As further discussed below, the Department agrees that good reason exists to redistribute the Company's electric and common reserves, but not its gas reserves.

The Department's initial Comments supported Xcel's proposal to redistribute its electric reserves because the level of depreciation expense that would result from redistribution is very close to the level of depreciation expense included in current rates, as well as the expense level included in the rates proposed in Xcel's current rate case. Because of these facts, the Department concluded that the proposed redistribution would not harm ratepayers. Due to the fact that a large majority of common plant is allocated to the Company's electric utility operations (between 80 and 93%, depending on the particular account), the Department believes that this argument also applies to the redistribution of the Company's common account depreciation

reserves. Because ratepayers would not be harmed, the Department now recommends that the Commission approve Xcel's request to redistribute its common plant depreciation reserves.

Xcel's proposal to redistribute its gas account reserves, however, enjoys no similar justification, and therefore, in the Department's view, has no justification at all. The Company's gas account depreciation rates would be no less "correct" without reserve redistribution than they would be with it. The Department continues to conclude that allowing Xcel to redistribute its gas account reserves at this time would harm ratepayers by resulting in an unreasonable difference between the level of depreciation expense reflected in current rates and actual depreciation expense.

### **III. RESPONSE TO XLI**

#### *A. SUMMARY OF XLI'S POSITION*

In its Comments, XLI stated that it does not believe a decision in the instant Docket should bar XLI from making any arguments with respect to depreciation in Xcel's current rate case or preclude the Commission from accepting XLI's arguments. To ensure XLI's ability to make arguments related to depreciation in the rate case, XLI requested that the Commission either merge the instant Docket with Xcel's current rate case or note in its order in this Docket that the outcome of this Docket is subject to resolution of depreciation issues in the rate case.

#### *B. DEPARTMENT ANALYSIS*

The Department agrees with XLI's position that the Commission's order in this Docket would not preclude depreciation changes in Xcel's current rate case. The Department is unaware of any prior Commission precedent to the contrary and believes that it is generally understood that depreciation issues can be addressed in rate cases. The Department therefore sees no compelling reason to merge the instant Docket with the current rate case, and would not oppose the inclusion of language in the Commission's order in the instant Docket clarifying that depreciation can be addressed in the current rate case.

### **IV. RECOMMENDATIONS**

After reviewing Xcel's Reply Comments, the Department has modified its initial recommendations to the Commission to now include a recommendation of approval for the Company's request to redistribute its common reserves. The Department recommends that the Commission:

- **Approve** Xcel's proposed average service lives, remaining lives and salvage rates, as well as the resulting depreciation rates;

- **Approve** Xcel's request to change from an ASL depreciation method to an effective ARL depreciation method;
- **Approve** Xcel's request to redistribute the depreciation reserves of its electric and common accounts by functional group;
- **Deny** Xcel's request to redistribute the depreciation reserves of its gas accounts;
- **Require** Xcel to file a transmission, distribution and general plant depreciation study update by July 31, 2014; and
- **Require** Xcel to file a comprehensive five-year depreciation study for its transmission, distribution, and general accounts by July 31, 2017.

/ja

## **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  
Response Comments**

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

Dated this **6<sup>th</sup>** of **February, 2013**

**/s/Sharon Ferguson**



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