



414 Nicollet Mall
Minneapolis, Minnesota 55401

April 4, 2014

--Via Electronic Filing--

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

RE: REPLY COMMENTS
NEW ADMINISTRATIVE SERVICES AGREEMENT WITH
NORTHERN STATES POWER COMPANY-WISCONSIN
DOCKET NO. E002/AI-14-165

Dear Dr. Haar:

Northern States Power Company, doing business as Xcel Energy, submits these Reply Comments to the March 27, 2014 Comments of the Minnesota Department of Commerce in the above-noted docket.

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

Please contact me at paul.lehman@xcelenergy.com or 612-330-7529 if you have any questions regarding this filing.

Sincerely,

/s/

PAUL J LEHMAN
MANAGER, REGULATORY COMPLIANCE AND FILINGS

Enclosures
c: Service List

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	Chair
David C. Boyd	Commissioner
Nancy Lange	Commissioner
Dan Lipschultz	Commissioner
Betsy Wergin	Commissioner

IN THE MATTER OF THE PETITION OF
NORTHERN STATES POWER COMPANY
FOR APPROVAL OF AN AFFILIATE
AGREEMENT WITH NORTHERN STATES
POWER COMPANY-WISCONSIN

DOCKET NO. E002/AI-14-165

REPLY COMMENTS

INTRODUCTION

Northern States Power Company, doing business as Xcel Energy, submits this Reply to the March 27, 2014 Comments of the Department of Commerce, Division of Energy Resources on our petition for approval of an affiliate agreement with Northern States Power Company-Wisconsin.

The Department recommended we provide the following additional information in our Reply:

- 1. an explanation of the nature and size of non-incidental costs;*
- 2. the anticipated difference in magnitude between non-incidental transactions costs and incidental transaction costs;*
- 3. a summary of the Company's assessment that determined the need for an additional ASA to be filed;*
- 4. a description of the relationship between non-incidental costs and reasoning that a competitive bidding process is not appropriate in the case of this ASA.*

We provide that information below.

REPLY

1. Nature and Size of Non-Incidental Costs.

As described more fully in section 4 below, the Transmission organization schedules NSPM crews so their labor hours are efficiently and fully utilized. Any remaining construction work is awarded to contractors through a competitive process. Table 1 lists the transmission projects which have received approval from the PSCW, but are not yet in service. The table lists the date upon which PSCW approval was received, total project costs approved by the PSCW and whether construction services are being performed by NSPM crews or by contractors. Please note that the MPUC approved affiliate contracts related to PSCW Docket No. 5-CE-136 in MPUC Docket No. E002/AI-13-1108.

Table 1

Docket No.	Docket Title	Commission Approval	PSCW Approved Total Project Costs	Civil (Earthwork) Construction	T-Line Construction	Substation Construction
4220-CE-177	Application of Northern States Power Company-Wisconsin to Rebuild 42.6 Miles of Single-circuit 69 kV Transmission Line from Cedar Falls Substation to Clear Lake Substation, in the Towns of Red Cedar, Tainter, Otter Creek and Wilson in Dunn County, Towns of Dallas, Prairie Farm and Vance Creek in Barron County, and Town of Clear Lake in Polk County	5/3/2012	14,698,000	Contractor	Contractor	Internal
5-CE-136	Joint Application of Dairyland Power Cooperative, Northern States Power Company-Wisconsin, and Wisconsin Public Power, Inc., for Authority to Construct and Place in Service 345 kV Electric Transmission Lines and Electric Substation Facilities for the CapX Twin Cities-Rochester-La Crosse Project, Located in Buffalo, Trempealeau, and La Crosse Counties, Wisconsin	5/30/2012	211,100,000	Contractor	Contractor	Internal
4220-CE-179	Application of Northern States Power Company-Wisconsin for Authority to Expand the Substation Yard and Modify the 161/69 kV Section of its Existing 345/161/69 kV Eau Claire Substation, Located in the City of Eau Claire, Eau Claire County, Wisconsin	6/14/2012	10,695,000	Contractor	n/a	Internal
4220-CE-176	Application of Northern States Power Company-Wisconsin to Upgrade Electric Transmission Facilities Between the Existing Stone Lake and Couderay Substations, Sawyer County, Wisconsin	9/27/2012	28,916,000	Internal	Contractor	Contractor
4220-CE-178	Application of Northern States Power Company-Wisconsin to Remove, Replace, and Double-Circuit 36 Miles of Transmission Facilities from 69 kV to 161/69 kV, Between the Couderay and Osprey Substations in Sawyer and Rusk Counties, Wisconsin	10/25/2012	46,250,000	Internal	Contractor	TBD
4220-CE-173	Application by Northern States Power Company-Wisconsin to Upgrade a 115 kV line to 161 kV, Between the Osprey Substation in the Town of Big Falls, Through the Towns of Cedar Rapids and South Fork, Rusk County, the Town of Winter, Sawyer County, on Through the Towns of Georgetown, Elk and Flambeau to the Lugerville Switch in Price County, Wisconsin	7/8/2013	21,228,403	Both (Majority Contractor)	Contractor	n/a

NSPW's service territory includes a small portion of the Upper Peninsula of Michigan, but NSPW does not anticipate constructing any projects in its Michigan jurisdiction which would be covered by this Administrative Services Agreement.

2. Anticipated difference in magnitude between non-incident transactions costs and incidental transaction costs.

The threshold for Commission approval of affiliate transactions differs in Minnesota and Wisconsin and therefore the term "incidental" may mean different things in different states. In Wisconsin pursuant to Wisconsin Statutes section 196.52, Public Service Commission of Wisconsin (PSCW) approval is needed for contracts greater than \$250,000. By comparison, in Minnesota, pursuant to Minnesota Statutes section 216B.48, Minnesota Public Utilities Commission (MPUC) approval is needed for contracts greater than \$50,000.

In approving the ASA between all of the Xcel Energy Operating Companies, the PSCW explained that "[f]or purposes of this agreement 'incidental' will be defined as it relates to NSPW."¹ In approving the ASA between the Operating Companies (Docket No. E002/AI-01-493), no participant in the MPUC docket explicitly defined "incidental", but the Company provided two examples of the type of transactions contemplated: 1) a lease of railcars from NSPM to its affiliate Public Service Company of Colorado. The average lease expense for the railcars was approximately \$51,000 per month. 2) the sale or purchase of coal from existing coal contracts assigned to one operating utility to another Xcel Energy operating utility.

To illustrate the need for the amendment in another way, NSPM's total charges to NSPW for incidental goods and services had historically been in the range of \$3-\$5 million annually for many years. That level has grown in recent years and is expected to be in excess of \$10 million annually going forward, as NSPW faces a number of large transmission construction projects over the next five to ten years.

3. Summary of the Company's assessment that determined the need for an additional ASA to be filed.

The currently-effective ASA between the Xcel Energy Operating Companies covers "incidental" goods and services exchanged between the operating companies. NSPW does not currently have the number and type of specialized construction workers and supervisors to perform this type of work. Thus, when construction is performed in-

¹ *Application of Northern States Power Company (Wisconsin) d/b/a Xcel Energy for Approval of an Affiliated Interest Agreement with Xcel Energy, Inc.'s Operating Subsidiaries*, Docket No. 4220-AU-127, Order at p.3 (PSCW Feb. 7, 2002).

house (as opposed to using a contractor), NSPM bargaining employees perform the construction work (managed by personnel who are employees of XES). As shown in Table 1 above, NSPW is undergoing a significant construction period, receiving regulatory approval for six transmission projects since May 2012. Because NSPW is undergoing a significant construction period, and because the term “incidental” is somewhat subjective, the NSP Companies decided to create a new ASA which would fill that gap.

4. Description of the relationship between non-incidental costs and reasoning that a competitive bidding process is not appropriate in the case of this ASA.

Under the FERC-approved Interchange Agreement, NSPM and NSPW plan, build, and operate a single integrated electric production and transmission system, known as the NSP System. NSPM and NSPW share costs related to the NSP System under the terms of the Interchange Agreement, with the goal of maximizing efficiency and lowering costs for all customers in the five states in which the NSP Companies operate.

The vast majority of transactions contemplated under the Administrative Services Agreement would be provided by NSPM to NSPW. NSPW does not currently have the number and type of specialized construction workers and supervisors to perform construction, oversight, and inspection work. If NSPW were to increase its own skilled labor force to meet the demands of the next 5 to 10 years, it would result in higher headcount and a long-term fixed cost resource.

Depending on the type of work being performed, NSPM crews are equal to or a lower cost resource than contractors. On certain specialized work, only contractors have the skills and equipment to perform the work. Also, contractors have the ability to assemble larger crews needed for very large projects. When planning construction of transmission projects, the Transmission organization first schedules the NSPM crews so their labor hours are efficiently and fully utilized. Depending on project schedules, NSPM crews may perform work in any of the five states in which the NSP Companies operate. Any remaining work is awarded to contractors on a competitive basis.

Further, the projects covered by these agreements are limited to those that have received necessary approvals by the regulatory agency having jurisdiction. That regulatory approval process includes review and approval of the estimated project costs prior to construction.

CONCLUSION

We appreciate the Department's comments on our petition. We respectfully request that the Commission approve our new Administrative Services Agreement with Northern States Power Company-Wisconsin.

Dated: April 4, 2014

Northern States Power Company

Respectfully submitted by:

/s/

PAUL J LEHMAN
MANAGER, REGULATORY COMPLIANCE AND FILINGS

CERTIFICATE OF SERVICE

I, Theresa Sarafolean, hereby certify that I have this day served copies of the foregoing document on the attached list of persons.

xx by depositing a true and correct copy thereof, properly enveloped with postage paid in the United States mail at Minneapolis, Minnesota

xx electronic filing

DOCKET NO. E002/AI-14-165

Dated this 4th day of April 2014

/s/

Theresa Sarafolean

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