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April 30, 2014

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

RE: **Comments of Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E,G002/D-14-181

Dear Dr. Haar:

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

Northern States Power Company's 2014 Review of Remaining Lives.

The petition was filed on February 28, 2014 by:

Lisa H. Perkett
Director, Capital Asset Accounting
Xcel Energy
414 Nicollet Mall, 4th Floor
Minneapolis, MN 55401

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

Sincerely,

/s/ CRAIG ADDONIZIO
Financial Analyst

/s/ MICHELLE ST. PIERRE
Financial Analyst

CA/MS/lt
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DEPARTMENT OF ENERGY RESOURCES

DOCKET NO. E,G002/D-14-181

I. BACKGROUND

On February 28, 2014, Northern States Power Company, doing business as Xcel Energy (Xcel or the Company), filed its 2014 Review of Remaining Lives Petition (the 2014 Petition) with the Minnesota Public Utilities Commission (Commission). The Company is requesting approval of its proposed remaining lives, salvage rates and depreciation rates for its electric and natural gas production facilities. Specifically, the Company is requesting:

- passage of time adjustments (one-year remaining life reductions) for all electric and natural gas production and gas storage facilities;
- a two-year remaining life extension for Sherco Unit 3; and
- a six-year remaining life extension for selected Wescott gas storage property accounts.

In the 2014 Petition, the Company is proposing no changes to any of its net salvage rates. The Company requests an effective date of January 1, 2014 for its proposed depreciation parameters. The net effect of the proposed changes is a reduction of $1.9 million ($1.6 million decrease for Xcel-electric and $0.3 million decrease for Xcel-gas), or 0.74 percent.

II. ADDITIONAL BACKGROUND

Xcel's two prior remaining life depreciation petitions (the 2012 and 2013 Depreciation Petitions) are pending before the Commission, and are scheduled for deliberation at the Commission's May 1, 2014 agenda meeting, one day after these Comments are due.[1] The Company's 2014 Petition reflects several changes proposed in the 2012 and 2013 Dockets. These Comments assume that the Commission will approve the changes proposed in those Petitions. The Department recommended approval of the 2012 and 2013 Depreciation Petitions, and Staff Briefing Papers in those Dockets do not identify any major disagreements between the parties. Staff Briefing Papers in the 2013 Depreciation Docket also state that Staff has not identified any issues that would raise concerns for the Commission.[2] If the Commission does not approve the 2012 and 2013 Petitions as filed, the Department will file revised Comments with new recommendations which reflect the Commission's decision if necessary.

III. DEPARTMENT ANALYSIS

The Department examined Xcel's 2014 Petition for compliance with filing requirements and previous Commission Orders, and for the reasonableness of the proposed remaining lives, salvage rates, and depreciation accruals.

A. DEPRECIATION RULES

Minnesota Statutes Section 216B.11 and Minnesota Rules, parts 7825.0500-7825.0900 require public utilities to seek Commission approval of their depreciation practices. Utilities must also file depreciation studies at least once every five years and must use straight-line depreciation unless the utility can justify a different method. When utilities use the average service life technique to depreciate group property accounts, life and salvage factors, as well as the resulting depreciation rates, remain unchanged between studies. When companies choose the remaining-life technique for depreciating group property accounts, the underlying life and salvage factors may not change, but depreciation rates are adjusted annually to reflect the passage of time on remaining lives, as well as the impact of plant additions and retirements. Annual depreciation study updates are required when the remaining-life technique is employed to allow the Commission the opportunity to approve changes in depreciation rates.

[1] Docket Nos. E,G002/D-12-151 and E,G002/D-13-1158, respectively.

[2] See Staff Briefing Papers dated May 1, 2014, page 11.

B. REASONABLENESS OF PROPOSED DEPRECIATION PARAMETERS FOR ELECTRIC PRODUCTION FACILITIES

1. Remaining Lives

With the exception of the units described below, Xcel proposed one-year reductions to the remaining lives of all of its electric production facilities to reflect the passage of time. After review, the Department concludes that Xcel's proposed remaining lives are reasonable.

a. Blue Lake Units 1-4, Granite City, and Key City

In its August 6, 2012 Reply Comments in the 2012 Depreciation Docket, Xcel proposed one-year remaining lives for Blue Lake Units 1-4, Granite City, and Key City, effective January 1, 2012, with the intention of fully depreciating these assets by the end of 2012. The Company noted, however, that it planned to continue operations at all three units beyond 2012 and use the units' capacity to satisfy the Midcontinent Independent System Operator's (MISO) Resource Adequacy requirements.

In a Supplement Filing on October 26, 2012 in the 2012 Depreciation Docket, the Company noted that Granite City would require additional capital investment over the next few years totaling approximately $0.9 million in order to continue operations through 2018. The Company stated that it would propose a six-year remaining life for Granite City in its next remaining life depreciation petition. The Company proposed a six-year remaining life in its 2013 Depreciation Petition, effective on the in-service date of the additions installed in 2013, which at the time of filing was anticipated to be in October, 2013. Additionally, in the 2013 Depreciation Petition, the Company proposed remaining lives of zero for Blue Lake Units 1-4 and Key City.

In the 2014 Depreciation Petition, Xcel proposed remaining lives of zero, zero, and 5.4 years for Blue Lake Units 1-4, Key City, and Granite City, respectively. These proposed remaining lives are consistent with the proposals from the 2012 and 2013 Depreciation Dockets, and the Department concludes that they are reasonable.

b. Sherco Unit 3

On November 19, 2011, Xcel's Sherco Unit 3 experienced a significant failure while returning to service after a scheduled maintenance overhaul. The failure resulted in a nearly two-year outage, and Sherco 3 returned to service on September 5, 2013. The Company requested a remaining life extension of two years for Sherco 3, from 19 years to 21, effective January 1, 2014. The Company proposed this extension to account for the approximately two years the unit was not operating following the failure described above.

The Commission's September 3, 2013 Order in the 2013 Rate Case required the Company to have an engineer evaluate Sherco 3 and assess whether the significant repair work done to the unit in the wake of the November 19, 2011 failure impacted Sherco 3's expected remaining life. The Company did not provide the results of that assessment in its 2014 Depreciation Petition, but did provide the results in the Company's current rate case, Docket No. E002/GR-13-868 (the 2014 Rate Case). In her Direct Testimony, Company witness Lisa H. Perkett stated that Xcel contracted with Black & Veatch, an engineering firm, to review Sherco 3's remaining life. After review, Black & Veatch determined that retention of Sherco 3's remaining life at the time of the failure (21 years) is appropriate.[3] On page 19 of her Direct Testimony, Ms. Perkett stated that the component of a plant most likely to affect its remaining life is the boiler, which was not affected by the failure. Additionally, Ms. Perkett noted that other components of the plant, including the turbine, generator, and exciter were repaired or rebuilt to bring Sherco Unit 3 back to the condition that existed immediately prior to the failure. Ms. Perkett stated, for example, that the exciter was replaced with a refurbished exciter of a similar vintage to the damaged exciter, and therefore, the work done to these components does not warrant a life extension. Based on the engineering assessment, the Department concludes that Xcel's proposed remaining life for Sherco 3 of 21 years is reasonable. The Department notes that the remaining life proposed for Sherco 3 in the instant petition is the same as the life proposed in the Company's 2014 Rate Case.

1. Salvage Rates

Xcel proposed no changes to its salvage rates in the 2014 Petition. The Department concludes that Xcel's proposed salvage rates are reasonable. The Department discusses two issues related to salvage below.

a. Black Dog

In the 2013 Rate Case, Xcel proposed to update the net salvage rates of Black Dog Units 2-4 (which are treated as a single group for depreciation purposes) and Black Dog Unit 5. Xcel has one estimate for total removal costs for Black Dog Units 2-4 and Unit 5 ($37.3 million), which it allocates between the two depreciable groups. In the 2013 Rate Case, Xcel proposed to change the allocation between the two groups, but not the total amount to be allocated, as shown in Table 1 below.

[3] See the November 4, 2013 Direct Testimony of Lisa H. Perkett, pages 17-20 in the 2014 Rate Case.

Table 1
Black Dog Salvage Rate Changes
Proposed in 2013 Rate Case

	As filed in E,G002/D-10-151 (Xcel's 2010 Depr. Docket):		As filed in the 2013 Rate Case:		
	Initial Allocation of Removal Cost	Net Salvage Rate	Reallocation of Removal Cost	Net Salvage Rate	Additional Remediation Cost
	[a]	[b]	[c]	[d]	[e]
Black Dog Units 2-4	23,786,570	-18.0%	33,405,394	-29.7%	33,200,000
Black Dog Unit 5	13,493,635	-8.3%	3,874,811	-1.7%	-
Total	37,280,205		37,280,205		33,200,000

As shown in columns [a] and [c] in the table above, the total removal cost of $37.3 million was preserved in the rate case, but approximately $9.6 million of the total was reallocated from Black Dog Unit 5 to Black Dog Units 2-4. The Commission approved this reallocation of removal costs, and Xcel's 2013 Depreciation Petition reflected this change. Because Units 2-4 have a shorter remaining life (3 years in the 2013 Depreciation Petition) than Unit 5 (19 years), this change resulted in an increase in depreciation expense.

Table 2
Change in Black Dog Depreciation Expense
Resulting From Reallocation of Removal Cost

	Increase/ (Decrease) in Removal Cost	Remaining Life in 2013 Petition	Increase/ (Decrease) in Annual Depr. Expense
	[a]	[b]	[c]
Black Dog Units 2-4	9,618,824	3.0	3,206,275
Black Dog Unit 5	(9,618,824)	19.0	(506,254)
Total	-		2,700,021

In addition to the reallocation of removal costs between Black Dog Units 2-4 and Unit 5, Xcel also proposed in the 2013 Rate Case to recover additional remediation costs totaling $33.2 million, shown in column [e] in Table 1, which the Company expects to incur pursuant to a Voluntary Investigation and Compliance (VIC) program it entered with the State of Minnesota. The VIC program requires Xcel to fully remediate the land where Black Dog's coal pile and ash ponds are located. The Commission approved recovery of the costs of this program, and required Xcel to amortize this expense over a period of 15 years, which results in amortization expense of $2.2 million per year. The Company's 2013 and 2014 Depreciation Petitions reflect both of these changes (the reallocation of removal costs and the addition of remediation costs).

2. Minnesota Valley Removal Cost

In its August 6, 2012 Reply Comments in the 2012 Depreciation Docket, Xcel proposed to reallocate accumulated depreciation reserves from other steam units to the Minnesota Valley plant in order to fully depreciate the unit. At the time, the Company estimated the total cost of decommissioning and removal of the Minnesota Valley plant to be $21.1 million.

In the 2013 Rate Case, Xcel made the same proposal, which the Commission ultimately approved. Pursuant to the Commission's Order in the 2013 Rate Case, Xcel transferred $16.2 million into Minnesota Valley's depreciation reserve, giving the plant a net book value of negative $21.1 million.[4]

In its 2013 Depreciation Petition (filed October 1, 2013) the Company updated its estimate of total removal costs from $21.1 million to $19.1 million, which gives the Company an extra $2.0 million dollar contingency should costs increase.[5] At final retirement, after all removal costs have been incurred, any surplus reserve will be transferred back to the Company's other steam units. This reallocation will marginally reduce depreciation expense on Xcel's other steam units, and will have no impact on net rate base. If removal costs exceed $21.1 million, Xcel may request an additional reserve reallocation.

The Department recommends that the Commission require Xcel to continue to provide in future depreciation filings updates on removal costs for the Minnesota Valley Plant and the impact on depreciation reserves, including a final true-up when the retirement/removal is completed.

C. REASONABLENESS OF PROPOSED DEPRECIATION PARAMETERS FOR GAS PRODUCTION AND STORAGE FACILITIES

As stated above, Xcel proposed that the current remaining lives for all gas production and gas storage vaporizing and compressor equipment be adjusted for the one-year passage of time since the last depreciation study. For the remaining gas storage facilities, the Company proposed to extend the life from four to ten years. No changes are proposed to the net salvage rates.

[4] See Department Attachment No. 1, which contains Xcel's response to Department Information Request No. 4. Attachment A to the Company's response contains a summary of Minnesota Valley's plant balances, reserve balances and removal cost estimates.

[5] The Department notes that the Company's February 3, 2014 Reply Comments in the 2013 Depreciation Docket reports a remaining removal cost estimate of $16.8 million. In its response to Department Information Request No. 4, the Company stated that it inadvertently excluded $2.4 million in removal work in progress, and that the actual estimate was $19.1 million. See Department Attachment No. 1. The Company apparently made the same error in the 2014 Depreciation Petition, reporting a year-end 2013 estimate of remaining removal costs of $16.8 million. The Department is relying on the estimate provided in the Company's response to Information Request No. 4.

1. Proposed Changes in Depreciation Study

Xcel proposes the changes to the lives and net salvage values shown in Table 3.[6]

Table 3: Proposed RL Study Changes

	Gas Utility-Production	**Current RL[7]**	**Proposed RL**	**Current Salvage Value**	**Proposed Salvage Value**
	Maplewood				
G305	Structures and Improvements	7	6	-17.0	-17.0
G311	LP Gas Equipment	7	6	8.0	8.0
G320	Other Equipment	7	6	0	0
	Sibley				
G305	Structures and Improvements	7	6	-1.0	-1.0
G311	LP Gas Equipment	7	6	8.0	8.0
G320	Other Equipment	7	6	-1.0	-1.0
	Wescott				
G305	Structures and Improvements	7	6	-3.0	-3.0
G311	LP Gas Equipment	7	6	1.0	1.0
G320	Other Equipment	7	6	3.0	3.0
	Gas Utility-Storage				
G361	Structures and Improvements	5	10	-10.0	-10.0
G362	Gas Holders	5	10	-10.0	-10.0
G363	Purification Equipment	5	10	-10.0	-10.0
G363.1	Liquefaction Equipment	5	10	-10.0	-10.0
G363.2	Vaporizing Equipment	15	14	-10.0	-10.0
G363.3	Compressor Equipment	20	19	-10.0	-10.0
G363.4	Measuring & Regulating Equipment	5	10	-10.0	-10.0
G363.5	Other Equipment	5	10	-10.0	-10.0

[6] The data in Table 3 is taken from Xcel Energy's Schedule H, pages 7-8.
[7] Xcel proposed these lives in Docket No. E,G002/D-13-1158 which is pending the Commission's decision.

Overall, regarding the proposed changes, Xcel states:

> The Company replaced the refrigerated compressor unit at the Wescott LNG plant. With the addition of new equipment at the facility, we believe it was important to reevaluate the rest of the lives for the Wescott Gas Storage facility. We believe this is also important in light of the current winter season, which saw extreme cold temperatures and the rupture of a critical gas pipeline creating a need for the output of gas that is facilitated by the storage at the Wescott facility. The LNG facilities at the Wescott plant remain an important part of gas operations for the Company.
> At this time, Company personnel believe we would be able to operate the LNG facilities at least another 10 years. Where there are no major capital additions planned for the next year, the Company plans to maintain the facility and complete capital upgrades when needed. For these reasons, we are recommending that the remaining life of Accounts G361 – Structures and Improvements, G362 – Gas Holders, G363 Purification Equipment, G363.1 – Liquefaction Equipment, G363.4 – Measuring & Regulating Equipment, and G363.5 – Other Equipment be extended from 4 years to 10 years. This change in remaining lives results in a decrease in annual depreciation of approximately $307,000.[8]

Based on its analysis, the Department recommends that the Commission approve Xcel's changes to the remaining lives for its gas production and gas storage facilities since the proposed lives are reasonable.

D. ADDITIONAL ISSUES

1. Deferral of Sherco Unit 3 2013 Depreciation Expense

The Commission's Order in the 2013 Rate Case Required Xcel to defer all depreciation expense recorded in 2013 on Sherco 3 until January 1, 2014. In the 2013 Depreciation Docket, Xcel estimated that it would defer a total of $13.2 million in Sherco 3 depreciation expense. Additionally, the Company stated that during the scheduled maintenance, before the failure, it completed several projects with a total value of $24.3 million which were ready to be placed in service at the time of the failure. However, because Unit 3 never returned to service, the projects were never placed in service, and therefore Xcel recorded no depreciation expense related to these projects during the outage (depreciation expense continued on all plant that was in service at the time of the outage).

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[8] Petition, page 7.

On page 6 of the 2014 Depreciation Petition, the Company noted that actual 2013 depreciation expense for Sherco 3 amounted to $14.2 million, which the Company proposed to begin amortizing over the remaining life of Sherco 3 on January 1, 2014. This results in annual amortization of approximately $0.7 million per year. [9]

In Attachment J to the 2014 Depreciation Petition, the Company presented two possible accounting treatments for Sherco 3's deferred 2013 depreciation expense. The first option, Option A, is to create a regulatory asset in 2014, and amortize that asset over a 21-year period. In its response to Department Information Request No. 3, the Company stated that it will use Option A for Generally Accepted Accounting Principles (GAAP) purposes.[10] The second option, Option B, is an alternative which could be used for regulatory accounting purposes and would involve a one-time adjustment (reduction) to Sherco 3's 2014 depreciation expense equal to the unit's 2013 depreciation expense. Under this treatment, Sherco 3's accumulated depreciation balance would be lower than it would have been absent the one-time adjustment, resulting in the deferred expense being recorded as normal depreciation expense spread evenly over Sherco 3's remaining life.

In its response to Department Information Request No. 3, the Company stated that it does not have a preference between the two options for regulatory accounting purposes, but believes that the simplest method would be Option A to maintain consistency between reporting requirements. The Department notes that, from a ratepayer's perspective, the two options are nearly identical, and that Option A is consistent with past practice regarding deferred accounting.[11]

The Department concludes that the Option A accounting treatment is reasonable and consistent with the Commission's Order in the 2013 Rate Case and recommends that the Commission approve it. However, the Department notes that its recommendation for approval of this accounting treatment in the instant Docket is *not* a recommendation regarding the level of cost recovery, as cost recovery will be decided in the 2014 Rate Case.

2. Monticello LCM/EPU Update

In 2009, the Company began a project at the Monticello nuclear plant to (a) extend the useful life of the plant (the Life-Cycle Management, or LCM) and (b) increase its generating capacity (the Extended Power Uprate, or EPU). In its Order in the 2013 Rate Case, the Commission concluded that the EPU portion of the project would not be used and useful during the 2013 test year, and ordered Xcel to transfer 41.6 percent of costs for 2011 and 2012 additions pursuant to the entire LCM/EPU project into construction work in progress (CWIP). In Attachment K to the 2014 Depreciation Petition, the Company provided a schedule detailing the amounts transferred into CWIP, which the Department summarizes in Table 4 below.

[9] See Attachment B, page 3, of the 2014 Depreciation Petition.
[10] See Department Attachment No. 2.
[11] If Sherco 3's remaining life is extended in the future, the life of the regulatory asset would likely not be extended, creating a difference in the total annual expense under the two options. The Department concludes that any such difference would be small.

Table 4
Summary of LCM/EPU Additions and Transfers to CWIP

Item	Formula	Amount
LCM/EPU Additions in 2011 Rate case	[a]	187,908,822
2011 Actual LCM/EPU Additions	[b]	235,582,434
Excess of 2011 Actuals Additions over 2011 Rate Case	[c] = [b] -[a]	47,673,612
2012 Actual LCM/EPU Additions	[d]	20,869,882
2013 Actuals LCM/EPU Additions	[e]	318,482,714
Total Project Costs Incurred Since 2011 Rate Case	[f] = [c] + [d] + [e]	387,026,208
Allocation Factor	[g]	0.416
LCM/EPU Additions After 2011 Rate Case Transferred to CWIP	[h] = [f] x [g]	161,002,903
AFUDC Calculated on Transfers	[i]	6,449,117
Total CWIP Balance	[j] = [h] + [i]	167,452,020
Total LCM/EPU Additions	[k] = [b] + [d] + [e]	574,935,030
LCM/EPU Additions Placed In Service In 2011 Rate Case	[l] = [a]	187,908,822
LCM/EPU Additions Placed In Service After 2011 Rate Case	[m] = [f] x (1 - [g]) = [f] - [h]	226,023,305
Total LCM/EPU Additions Place in Service	[n] = [l] + [m]	413,932,127
CWIP Balance Excluding AFUDC	[o] = [h]	161,002,903
LCM/EPU Additions in Service Plus CWIP Excluding AFUDC	[p] = [n] + [o] = [k]	574,935,030

Source: Attachment K to the 2014 Depreciation Petition

Essentially, 41.6 percent of all costs incurred since the Company's 2011 Rate Case (Docket No. E002/GR-10-971) have been transferred into CWIP, a total of $167.4 million, including allowance for funds used during construction (AFUDC). Consistent with the Company's proposal in the 2014 Rate Case, the Company's 2014 Depreciation Petition transfers this amount from CWIP back into service, as the Company expects the EPU to be placed in service in early 2014.[12]

The Department concludes that this treatment is reasonable for accounting purposes, and notes that Xcel is not proposing changes to either the plant's remaining life or its salvage rate. The Department further notes, however, that the Commission has opened a separate Docket (Docket No. E002/CI-13-754) to investigate the LCM/EPU project's cost overruns, and recovery of these costs will ultimately be decided in that Docket and in the 2014 Rate Case.

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[12] The Department notes that the Company did not include the $6.5 million of AFUDC in 1/1/2014 plant balances, as the Commission has not yet determined whether this should be included in the plant balance. See Department Attachment No. 3. Additionally, the Department notes that on page 21 of her Direct Testimony in the 2014 Rate Case, Company Witness Ms. Perkett stated that the 2014 Depreciation Petition will reflect an addition of $167.4 million placed in service as of January 2014, and that depreciation will begin in January 2014 for this asset.

3. *New Wind Production Facilities*

In its 2014 Petition, Xcel noted that it has two wind production facilities expected to be placed in service in 2015. The Company did not propose or discuss the expected remaining lives and salvage rates of these facilities and stated that they will be discussed in greater detail in the Company's next Remaining Lives depreciation filing.

The Department notes, however, that the 2014 Rate Case includes both a 2014 test year and a 2015 test year, and thus remaining lives and salvage rates for the facilities must be established, or at least estimated, in the 2014 Rate Case in order to set reasonable rates in 2015.

4. *Potential Sale of Gas Production Facility*

The Company noted that it has received an offer to sell two tanks from its Grand Forks Gas Production facility. The facility is no longer operating and is fully depreciated. The offered price for the tanks is approximately $45,000, which falls well below the $100,000 threshold set in Minnesota Statute §216B.50, subd. 1, above which the Company would be required to seek Commission approval prior to the sale of the assets. If the tanks are sold, the Department expects that the net proceeds will be credited to the depreciation reserve for the facility.

5. *Resource Plan Comparison*

Attachment F to the Company's 2014 Depreciation Petition contains a comparison of the remaining lives proposed in the instant Docket with the remaining lives used in the Company's last resource plan filing. The Department has reviewed Attachment F and concludes that Xcel has adequately explained the differences between its last resource plan and the 2014 Depreciation Petition. The Department recommends that the Commission continue to require Xcel to provide in future depreciation filings a comparison of depreciation remaining lives and resource planning remaining lives.

IV. RECOMMENDATIONS

The Department recommends that the Commission:

1. Approve Xcel's proposed depreciation lives and salvage rates;
2. Approve the Option A accounting treatment for the Sherco 3's deferred 2013 depreciation expense;
3. Require Xcel to file its next remaining life depreciation filing by February 17, 2015;
4. Require Xcel to continue to provide in future depreciation filings a comparison of depreciation remaining lives and resource planning lives with an explanation of any differences;
5. Require Xcel to continue to provide in future depreciation filings a historical comparison of changes in remaining lives and net salvage rates; and

6. Require Xcel to continue to provide in future depreciation filings updates on removal costs for the Minnesota Valley Plant and the impact on depreciation reserves, including a final true-up when the retirement/removal is completed.

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☐ **Non Public Document – Contains Trade Secret Data**
☐ **Public Document – Trade Secret Data Excised**
☒ **Public Document**

Xcel Energy			
Docket No.:	EG002/D-14-181		
Response To:	Department of Commerce	Information Request No.	4
Requestor:	Craig Addonizio		
Date Received:	April 1, 2014		

<u>Question:</u>

Reference: Minnesota Valley

a. Please provide, on an annual basis, the amount of removal costs incurred at the Minnesota Valley plant through December 31, 2013.

b. On page 3 of its February 3, 2014 Reply Comments in Docket Nos. E/G002/D-12-151 E,G002/D-13-1158, Xcel indicated that at year-end 2013, it estimated remaining removal costs at Minnesota Valley to be $16.7 million. On the same page, Xcel shows the Minnesota Valley plant to have a net book value of negative $21.2 million as of 12/31/2013. Please explain the reason(s) for the difference between Minnesota Valley's estimated remaining removal costs ($16.7 million) and its net book value (i.e., should those number be equal to each other?).

c. Xcel's October 1, 2013 Supplement to its 2012 Review of Remaining Lives (Docket Nos. E,G002/D-12-151 E,G002/D-13-1158) stated on page 9 that in order to be fully depreciated, Minnesota Valley required a net book value of $19.3 million. In order to achieve this required net book value, the Company proposed to transfer $14.4 million of reserve from other steam plant to Minnesota Valley.

   On page 3 of its February 3, 2014 Reply Comments in Docket Nos. E/G002/D-12-151 E,G002/D-13-1158, Xcel indicated that $16.2 million of reserve was reallocated to the Minnesota Valley plant.

   Please explain the basis for the increase from originally-proposed $14.4 million reserve reallocation to the actual reallocation of $16.2 million.

d. On pages 7-8 of the 2014 Review of Remaining Lives, Xcel references the Commission's Order in Docket No. E002/GR-12-961 (the 2013 electric rate case). Please identify the specific language in the Commission's Order approving Xcel's proposed reallocation of reserves to the Minnesota Valley plant.

Response:

a. Since 2005, the Minnesota Valley plant has incurred the following removal costs:

Removal Expenditures by Year

Year		Amount
2005	$	16,886.19
2008		(7,000.00)
2010		2,701,321.26
2011		1,299,079.09
2012		847,409.05
2013		1,034,299.52
Total	$	5,891,995.11

b. and c. Minnesota Valley's net book value and the remaining estimated removal costs would be equal if there were no updates to the removal cost estimate. This has not been the case, as we have revised our removal cost estimate downward over time to incorporate additional information. At final retirement of the plant assets, if all estimated removal costs are not spent, we would transfer the remaining reserve to other steam production accounts with no impact to net rate base. Below we step through the changes to the removal cost estimates presented in our rate case and remaining lives filings.

NSP-Minnesota reallocated $16.2 million of reserve as proposed and approved in our 2013 rate case (Docket No. E002/GR-12-961) to fully reserve Minnesota Valley for estimated removal costs of $21 million.

Subsequently, in our 2013 remaining lives filing (Docket No. E,G002/D-13-1158) we updated the estimated removal costs to $19.3 million, a $1.8 million reduction. This reduction in the removal cost estimate would have required a reduced reallocation amount of $14.4 million.

In our February 3, 2014 reply comments in Docket No. E,G002/D-13-1158, we again updated the remaining removal cost estimate to $16.7 million, with a net book value of $(21.2) million. However, we note that in those reply comments, we inadvertently excluded approximately $2.4 million in removal costs spent to date that were included in RWIP as of December 31, 2013. The actual remaining removal cost estimate we should have reported in our reply comments is $19.1 million, leaving a difference of $2.1 million between the net book value and remaining removal cost estimate.

The $2.1 million difference is due to the approved expected removal costs as presented in Docket No. E002/GR-12-961 being higher than those proposed in Docket No. G,E002/D-13-1158. At final retirement of the plant assets, if the $2.1 million excess is not spent, NSP-Minnesota will transfer this reserve to other steam production accounts with no impact to net rate base.

See Attachment A for a summary of all plant related information including removal estimates for Minnesota Valley.

d. The Commission's rate case order in Docket No. E002/GR-12-961 does not specifically address the proposed reserve reallocation to the Minnesota Valley plant. However, our initial proposal in the rate case included the reserve reallocation, as discussed in Ms. Perkett's direct testimony. Because there was no discussion or disallowance of this reserve reallocation, we understood the Commission's order as approving our initial proposal

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Preparer:	Brandon Kirschner
Title:	Senior Accounting Analyst
Department:	Capital Asset Accounting
Telephone:	(612) 215-5361
Date:	April 11, 2014

Northern States Power Company

Minnesota Valley Removal Estimate
Estimate as of December 31, 2013

	Electric Rate Case Docket No. E002/GR-12-961 (Approved)	Remaining Life Docket No. E,G002/D-13-1158 (Proposed)	Change
Plant balance @ 12/31/2012	$ 13,611,626	$ 13,611,626	
Reserve balance @ 12/31/2012	(18,554,469)	(18,554,469)	
Net book value @ 12/31/2012	(4,942,843)	(4,942,843)	
Estimated removal costs	(21,145,118)	(19,344,850)	
Reserve reallocation	$ (16,202,275)	$ (14,402,007)	$ (1,800,268)

	Rollforward
Reserve balance @ 12/31/2012	$ (18,554,469)
Plus reserve reallocation approved in E002/GR-12-961	(16,202,275)
Equals reserve balance @ 12/31/2013	(34,756,744)
Less 2013 retirement	80,845
Less plant related reserve @ 12/31/2012	(13,611,626)
Equals cost of removal reserve @ 12/31/2013	(21,225,963)
Plus removal work in progress @ 12/31/2013	2,370,655
Equals net plant and RWIP @ 12/31/2013	(18,855,308)
Less remaining removal estimate @ 12/31/2013 per Reply Comments	(16,773,636)
Difference	$ (2,081,672) [a]

[a] NSP-Minnesota reallocated the reserve amount proposed and approved in the 2013 Electric Rate Case Docket No. E002/GR-12-961. Subsequently, in its remaining life filing Docket No. E,G002/D-13-1158 the estimated removal costs were revised downward. At final retirement of the plant assets, if there is reserve in excess of the plant balance being retired, we plan to transfer this reserve to other steam production accounts.

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Xcel Energy			
Docket No.:	EG002/D-14-181		
Response To:	Department of Commerce	Information Request No.	3
Requestor:	Craig Addonizio		
Date Received:	April 1, 2014		

Question:

Reference: Sherco Unit 3

a. Please provide an Excel spreadsheet showing calculation of Sherco 3's 2013 actual depreciation expense ($14.2 million). Please ensure that, for each month, the spreadsheet includes Sherco 3's remaining life, plant balance, reserve balance, and any other information necessary to derive actual depreciation expense in 2013.

b. Attachment J to Xcel's 2014 Review of Remaining Lives appears to include two possible accounting treatments for deferring Sherco 3's 2013 depreciation expense (labeled Options A and B). Does Xcel have a preference between the two options?

Response:

a. Please see Attachment A for a roll forward of plant and reserve balances for the Sherco 3 plant. The reserve section includes the calculation of monthly depreciation, which for 2013 totaled $14.2 million.

b. Option A shows how the Company will account for the deferral of Sherco Unit 3 depreciation for GAAP purposes. For GAAP presentation, we deferred 2013 depreciation expense in a Regulatory Asset (FERC Account 182.3). We will amortize the deferred amount as a Regulatory Debit (FERC Account 407.3) over the regulatory prescribed timeframe, which we have requested to be 21 years beginning January 1, 2014.

   Option B provides an option of accounting for regulatory reporting purposes. This accounting would treat the deferral as a reduction to depreciation expense

(FERC Account 403) and accumulated depreciation (FERC Account 108). Under this option, the deferred depreciation would be recorded as normal depreciation expense spread over the prescribed regulatory timeframe.

We do not have a preference of accounting treatment for regulatory reporting purposes. We could account for the deferred depreciation and the amortization in whatever manner the Commission determines is appropriate. However, we believe the simplest method would be Option A to maintain consistency between the reporting requirements.

Preparer:	Brandon Kirschner
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Date:	April 11, 2014

Docket No. E,G002/D-14-181
Department Attachment 2
Page 3 of 3

Northern States Power Company

Docket No. E,G002/D-14-181
Informational Request No. DOC-003
Attachment A
Page 1 of 1

Calculation of 2013 Monthly Depreciation
Sherco 3 Plant - All FERC Accounts

	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
Remaining Life (Months)	240	239	238	237	236	235	234	233	232	231	230	229
Net Salvage Rate %	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%	-4.3%
Remaining Life (Years)	20.00	19.92	19.83	19.75	19.67	19.58	19.50	19.42	19.33	19.25	19.17	19.08
Beginning Plant Balance	685,987,922.80	686,274,930.68	686,280,108.93	686,280,469.80	686,284,701.08	686,284,686.89	685,975,105.79	686,248,672.61	685,826,872.81	726,050,173.41	725,169,246.54	727,403,109.78
Additions	287,007.88	5,178.25	360.87	4,231.28	(14.19)	-	273,566.82	378,924.18	15,834,205.13	941,042.59	2,233,863.24	11,777,756.22
Retirements	-	-	-	-	-	(309,581.10)	-	(800,723.98)	-	(1,821,969.46)	-	-
Transfers	-	-	-	-	-	-	-	-	24,389,095.47	-	-	-
Ending Plant Balance	686,274,930.68	686,280,108.93	686,280,469.80	686,284,701.08	686,284,686.89	685,975,105.79	686,248,672.61	685,826,872.81	726,050,173.41	725,169,246.54	727,403,109.78	739,180,866.00
Beginning Life Reserve	436,999,188.09	438,037,239.08	439,075,901.35	440,114,575.25	441,153,258.83	442,191,951.36	442,921,062.75	443,960,339.78	444,197,482.00	445,372,592.54	444,755,183.94	445,959,757.20
Depreciation Provision	1,038,050.99	1,038,662.26	1,038,673.90	1,038,683.59	1,038,692.52	1,038,692.49	1,039,277.04	1,037,866.19	1,175,110.54	1,204,560.86	1,204,573.27	1,254,725.90
Adjustments	-	-	-	-	-	-	-	-	-	-	-	-
Reserve Retirements	-	-	-	-	-	(309,581.10)	-	(800,723.98)	-	(1,821,969.46)	-	-
Ending Life Reserve	438,037,239.08	439,075,901.35	440,114,575.25	441,153,258.83	442,191,951.36	442,921,062.75	443,960,339.78	444,197,482.00	445,372,592.54	444,755,183.94	445,959,757.20	447,214,483.10
Life Depreciable Base	249,132,238.65	248,240,280.72	247,204,388.02	246,168,010.19	245,131,435.15	244,092,735.53	243,190,826.45	241,822,823.20	272,625,645.44	278,253,558.81	277,051,851.03	287,332,230.62
Beginning COR Reserve	15,473,129.65	15,531,590.16	15,590,076.95	15,648,564.24	15,707,051.95	15,765,540.04	15,534,733.76	15,594,426.40	15,654,105.36	15,623,839.06	10,773,582.34	10,862,972.00
COR Provision	58,460.51	58,486.79	58,487.29	58,487.71	58,488.09	59,076.53	59,692.64	59,678.96	65,834.77	88,815.81	89,389.65	90,255.82
Depr Expense Adjustment	-	-	-	-	-	-	-	-	-	-	205,794.68	-
Reseve Transfers	-	-	-	-	-	-	-	-	-	(4,939,072.52)	-	-
Cost of Removal	-	-	-	-	-	(289,882.81)	-	-	(96,101.08)	-	-	-
Reserve Adjustments	-	-	-	-	-	-	-	-	-	-	(205,794.68)	-
Ending COR Reserve	15,531,590.16	15,590,076.95	15,648,564.24	15,707,051.95	15,765,540.04	15,534,733.76	15,594,426.40	15,654,105.36	15,623,839.06	10,773,582.34	10,862,972.00	10,953,227.82
COR Depreciable Base	14,030,521.70	13,978,343.19	13,919,975.49	13,861,586.93	13,803,189.89	13,882,985.19	13,968,077.47	13,905,197.82	15,273,667.22	20,516,450.98	20,559,620.63	20,668,583.48

Total Depr Expense	
Sum of Depreciation Provision	13,147,569.55
Sum of COR Provision	805,154.58
COR Depr Expense Adjustments	205,794.68
Total 2013 Depreciation Expense - Sherco 3	14,158,518.81

Note: COR Depr Expense Adjustment in November 2013 was to account for depreciation impact of the Minnesota Valley reserve reallocation not being completed until October. Transfer was effective January 1, 2013.

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Xcel Energy			
Docket No.:	EG002/D-14-181		
Response To:	Department of Commerce	Information Request No.	2
Requestor:	Craig Addonizio		
Date Received:	April 1, 2014		

<u>Question:</u>

Reference: Monticello LCM/EPU Project Costs

a. Attachment K to the 2014 Review of Remaining Lives shows the full Construction Work in Progress balance associated with the Monticello EPU ($167.5 million) being transferred out of CWIP in January 2014. Was this balance transferred into plant in service? Do the 1/1/2014 plant balances shown on pages 4 and 5 of Attachment B include this $167.5 million?

b. Please identify the total dollar amount of LCM/EPU-related investments included in the 1/1/2014 plant balances shown on pages 4 and 5 of Attachment B.

<u>Response:</u>

a. The 1/1/2014 plant balances on Attachment B include approximately $161 million of the $167.5 million referenced on Attachment K. The difference of approximately $6.5 million reflects the difference between GAAP accounting requirements and the regulatory accounting required as a result of our 2013 rate case. The $161 million represents the amount of assets that have been placed in service under GAAP accounting. For regulatory accounting purposes, we show this $161 million transferred to CWIP as of 1/1/2013, plus an additional $6.5 million to reflect AFUDC that would have accrued during 2013 if the plant balance had actually been in CWIP in 2013. This AFUDC is not included in the plant balances in Attachment B (GAAP accounting) because the Commission has not yet determined whether this should be included in the plant balance. The table below provides a reconciliation of the Monticello EPU numbers in Attachments B and K.

CWIP Transfers	Amount
2011 & 2012 Actuals over 2011 Rate Case	$28,514,094
2013 Rate Case excluding License	102,773,456
2013 Actuals over 2013 Rate Case	29,715,353
Total excluding AFUDC (Attachment B)	**$161,002,903**
Add: AFUDC calculated on Transfers	6,449,117
Total to be added in 2014 (Attachment K)	**$167,452,019**

b. We used our GAAP accounting records to develop Attachment B because GAAP accounting provides the information by FERC account and plant as necessary. The portion of Attachment B calculating the potential change in depreciation for 2014 reflects the plant balances including the $161 million of plant in service that for regulatory accounting purposes has been transferred back into CWIP.

   This difference between GAAP and regulatory accounting does not impact depreciation in this proceeding. Attachment B is intended to calculate any estimated depreciation change resulting from a change in remaining life or net salvage rate. We are not requesting changes to depreciation for Monticello at this time, so the issues surrounding the deferred plant for Monticello EPU do not have an impact on this filing. We reported the amount of plant transferred back into CWIP as a separate line item under "Deferred Plant" for information purposes.

Preparer: Brandon Kirschner
Title: Senior Accounting Analyst
Department: Capital Asset Accounting
Telephone: (612) 215-5361
Date: April 11, 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
Comments

Docket No. E,G002/D-14-181

Dated this **30^{th}** day of **April 2014**

/s/Sharon Ferguson

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