414 Nicollet Mall
Minneapolis, Minnesota 55401

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January 26, 2015

--Via Electronic Filing--

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

RE: REPLY COMMENTS
ADMINISTRATIVE SERVICES AGREEMENTS WITH
XCEL ENERGY TRANSMISSION DEVELOPMENT COMPANY, LLC AND
XCEL ENERGY SOUTHWEST TRANSMISSION COMPANY, LLC
DOCKET NO. E002/AI-14-759

Dear Mr. Wolf:

Northern States Power Company, doing business as Xcel Energy, submits the enclosed Reply Comments in response to the January 16, 2015 Comments of the Department of Commerce, Division of Energy Resources in the above-referenced Docket.

Our Reply Comments contains certain information marked as Trade Secret Data pursuant to Minn. Stat. §13.37 and considered commercially sensitive by the Company, Xcel Energy Inc. (Xcel Energy), XETD and XEST. The information summarizes the estimated savings to ratepayers under an alternative construction scenario. The estimates include indicative construction costs for Xcel Energy transmission projects. This information is not available outside of Xcel Energy except to consultants and attorneys subject to non-disclosure obligations. The trade secret information derives economic value, actual or potential, from not being generally known or being readily ascertainable. Competing transmission companies may be able to use knowledge of the costs incurred (or expected to be incurred) by the Xcel Energy Transcos to gain an advantage in future Regional Transmission Organization competitive solicitation processes. Disclosure could thus directly harm Xcel Energy, XETD and XEST. Consistent with regulatory practice, the Company sought to minimize the data classified as Trade Secret Data in this Petition.

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

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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 ADMINISTRATIVE SERVICES AGREEMENTS WITH XCEL ENERGY TRANSMISSION DEVELOPMENT COMPANY, LLC AND XCEL ENERGY SOUTHWEST TRANSMISSION COMPANY, LLC

DOCKET NO. E002/AI-14-759

REPLY COMMENTS

OVERVIEW

Northern States Power Company, doing business as Xcel Energy (Company or NSPM), provides these Reply Comments in response to the January 16, 2015 Comments of the Department of Commerce, Division of Energy Resources (Department) regarding our Petition for approval of Administrative Services Agreements (ASAs) with Xcel Energy Transmission Development Company, LLC and Xcel Energy Southwest Transmission Company, LLC (together, the Transcos).

We appreciate the Department's review of our Petition. Below we provide our Reply addressing their additional requests for information concerning the benefits associated with the ASAs, the benefits associated with the Transco initiative, and the potential for using the Transmission Cost Recovery Rider (TCR) as the mechanism for test year costs deferred as a result of the Transco initiative.

REPLY

A. Benefits Associated with the ASAs for Ratepayers

The Department requests that the Company provide a cost/benefit analysis that identifies and quantifies any costs and benefits associated with the ASAs to ratepayers. The proposed ASAs benefit ratepayers by preventing cross-subsidization and providing the Company payment for the use of its available resources. Each ASA provides the terms and conditions for the Company to provide personnel, goods, and services to support the Transcos' activities on an "as-available" basis. The ASAs will allow the Company to charge the Transcos on a fully-allocated cost basis for the provision of transmission planning and development activities.

As the support is provided by the Company on an as-available basis, these entities reduce costs to the Company by providing payment for the use of available resources. If the Transcos do not use the resources, the Company will not be paid and the resources will continue being used the same as they are today to support Company activities, with the Company and ratepayers no better or worse off. If the Transcos do use the resources, the ASAs allow the Company, and thus, the ratepayers, to take advantage of economies of scale.

A specific cost benefit analysis is difficult to prepare due to the lack of actual scenarios for these proposed ASAs and the uncertainty of the future level of work by Company personnel or resources for the Transcos. As discussed in the Petition, the majority of resources are expected to be provided by Service Company personnel and no services have been provided to date by Company personnel. However, an example of a ratepayer benefit derived from providing services to a regulated affiliate can be found in our 2009 Minnesota Gas Rate Case. In that case, there was an affiliate agreement in place to provide for an allocation of SCADA (Supervisory Control and Data Acquisition system) and natural gas dispatch costs due to the joint use of the NSP SCADA and dispatch systems by NSPM, NSPW, and Viking Gas Transmission Company, a Federal Energy Regulatory Commission (FERC)-regulated interstate gas pipeline.[1] The test year revenue requirement was approximately $1.3 million, but due to the ASA, approximately $256,000 was allocated to NSPW, thereby reducing NSPM ratepayers' costs (*See* Attachment A).

In its policy statement in Docket No. E,G999/CI-90-1008, the Commission ruled it is appropriate for regulated utilities to provide services to affiliates and non-regulated divisions if the affiliates were charged on a fully-allocated cost basis.[2] The ASAs with

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[1] In accordance with the Commission's December 5, 1995 Order in Docket No. G002/AI-94-831. Viking ceased taking SCADA services when Xcel Energy Inc. sold Viking prior to the 2009 test year.

[2] *In the Matter of an Investigation into the Competitive Impact of Appliance Sales and Service Practices of Minnesota Gas and Electric Utilities*, Docket No. E,G999/CI-90-1008, ORDER SETTING FILING REQUIREMENTS (September 28, 1994); ORDER FINDING COMPLIANCE, EXEMPTING NORTHWESTERN WISCONSIN, REQUIRING PREPARATION, AND CLOSING DOCKET (March 1, 1995); ORDER CLARIFYING COMMISSION ORDER DATED SEPTEMBER 28, 1994 (March 7, 1995).

the Transcos are similar in both terms and cost allocation methodology to numerous ASAs executed by the Company and approved by the Commission. The ASAs provide fully allocated cost pricing for services to the Transcos and should be found reasonable.

B. Benefits for Ratepayers Associated with the Transco Initiative

The Department also requests that the Company provide a cost/benefit analysis associated with the Company's Transco initiative from the ratepayers' perspective. The intent of the Transco initiative is to allow Xcel Energy to be a low cost transmission service provider in the Order No. 1000 competitive solicitation processes mandated by FERC. The Company recognizes that it is difficult to discuss the benefits of the Transco initiative in the abstract, as the Transco currently does not own any assets in the Midcontinent Independent System Operator, Inc. (MISO) footprint and has not proposed to construct any specific projects. However, if this endeavor is successful, we believe it will provide benefits to all recipients of transmission services under the MISO Tariff. To the extent NSPM customers receive MISO transmission services, they will benefit as well.

Due to the timing of cost allocation projects in the MISO planning process, a forward looking assessment of the costs and benefits of the Transco initiative is difficult to perform. However, we are able to provide a relevant example using data from MISO Schedule 26a (which recovers the costs of certain projects eligible for regional cost allocation) by replacing another utility's cost data for a project already planned for the MISO region with Xcel Energy Transmission cost data. The analysis compares the estimated cost of an approved Multi-Value Project (MVP) to be constructed by Ameren Transmission Company of Illinois (ATXI) with the costs using Xcel Energy Transmission cost data.

Our analysis is provided as Attachment B. The scenario uses Xcel Energy Transmission indicative construction costs per mile instead of the ATXI estimated costs. Under this scenario, the 20 year net present value (NPV) of the project's annual transmission revenue requirements (ATRR) is **[TRADE SECRET BEGINS TRADE SECRET ENDS]** less if Xcel Energy's Transco were able to construct the project using Xcel Energy Transmission indicative construction costs than with ATXI constructing the project. Using the MISO assumptions to allocate the costs of the MVP portfolio ATRR to the NSP pricing zone, the 20 year NPV of the savings to the NSP pricing zone would be **[TRADE SECRET BEGINS TRADE SECRET ENDS]**. NSP retail ratepayers make up approximately 85 percent of the loads in the NSP pricing zone, so would receive approximately 85 percent of the savings.

Table 1 below provides a summary of the results. Complete calculations are included in Attachment B which contains some trade secret information.

Table 1: Results Summary

Scenario	Project NPV	MVP Portfolio ARR 20 year NPV	NSP Pricing Zone ARR 20 year NPV	NSP Pricing Zone Benefits 20 year NPV
	[TRADE SECRET BEGINS			
Base				
XE Trans Indicative Construct Costs				
			TRADE SECRET ENDS]	

This analysis shows that if the Transco for the MISO region (XETD) were to submit a bid into the MISO competitive solicitation process at a lower relative transmission construction cost than other bidders, ratepayers in the MISO region – including Company ratepayers in Minnesota – could benefit from lower overall costs over the life of the facility.

A second way an Xcel Energy Transco could provide benefits to ratepayers would be if the Transco's fixed charge rate (FCR) were lower than the FCR of other bidders for a competitive project in MISO. A lower FCR would result in a lower ATRR over the life of the MVP project, also providing savings to ratepayers in the MISO region, including in the NSP pricing zone. For example, the NSP Companies' FCR is presently lower than the ATXI FCR for the identified project. If one assumes the ATXI construction cost estimate but assumes XETD were able to offer an FCR equal to the NSP Companies' FCR, XETD ownership would provide some savings to MISO ratepayers, including the Company's ratepayers in Minnesota.[3]

These analyses are illustrative of how Xcel Energy Transco ownership of new transmission facilities outside the Company's historic retail service area might provide future benefits to Company ratepayers.[4] The Company would not propose to own

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[3] The XETD FCR would depend on the future capital structure and debt costs for XETD, and may not equal the NSP Companies' FCR. As such, actual savings from a lower FCR would depend on the actual XETD FCR versus the FCRs of other bidders.

[4] These estimates are not intended to imply that ATXI's estimated project costs or fixed charge rate for the specific MISO-approved MVP project are unreasonable.

these projects because they are in areas or states we do not presently serve. The Transco initiative provides an opportunity to apply Xcel Energy Transmission's capabilities in such a situation. Notably, numerous entities could submit bids in the MISO competitive solicitation process, and MISO will select the best overall bid. An Xcel Energy Transco would only be selected as project developer if MISO concluded the Transco provided the best overall bid, *i.e.*, the most beneficial project for MISO ratepayers.

C. Use of the TCR versus Deferred Credits

The Company proposed to defer and credit in its next electric rate case the Service Company and Company costs included in the 2014 rate case test year where the employee labor or services were actually provided to the Transco entities in 2014. The Petition included an estimate of costs as of September 2014, and the Company proposed to report 2014 and 2015 actuals in May 2015 and March 2016, respectively.

The Department agreed that compliance filings on May 29, 2015 and May 31, 2016 identifying the direct labor provided to the Transcos is an appropriate level of reporting. The Department suggested, however, using the TCR as a potential mechanism for returning any deferred revenues resulting from the Transco initiative to ratepayers, rather than waiting for the next rate case.

We are open to using the rate case deferral mechanism or the TCR for returning the cost adjustment to customers. We generally support flowing through the cost adjustment to customers as soon as possible, which the TCR would facilitate. However, the Service Company and Company costs at issue are costs that were included in base rates in the 2014 test year cost of service. We note that the appropriate use of the TCR and other riders has been discussed at length by stakeholders and is still part of an ongoing dialogue. In the currently pending TCR docket (Docket No. E002/M-14-852), the Department suggested that impacts of a reduction in the MISO return on equity (ROE) should be addressed in a future rate case because it impacts 2014 costs included in base rates. We recognize that circumstances may differ, but believe a balanced approach is necessary.

D. Commission's Ongoing Authority over the ASAs and Transcos

The Department noted the Commission has ongoing authority over the ASAs and that any effort by XETD to build transmission connected to transmission facilities in Minnesota would require approval from the Commission. We agree with both of these statements.

CONCLUSION

We appreciate the Department's review of our Petition and appreciate the opportunity to provide additional information and comment further. We respectfully request that the Commission approve our Administrative Services Agreements with Xcel Energy Transmission Development Company, LLC and Xcel Energy Southwest Transmission Company, effective August 28, 2014.

Dated: January 26, 2015

Northern States Power Company

GAS UTILITY
GAS AGREEMENT BILLINGS TO NSP(WI) (WISCONSIN) & NSP(WI) (MICHIGAN)
BUDGET YEAR 2010

		VARIABLE COSTS		FIXED COSTS		
		LD DISPATCH		LD DISP		TOTAL
TOTAL BUDGET		%	*$937,335*		*$325,603*	$1,262,938
NSP(WIS)	ANNUAL	15.85%	$148,568	15.85%	$51,608	$200,176
	MONTHLY		$12,381		$4,301	$16,681
NSP(MICH)	ANNUAL	4.46%	$41,805	4.46%	$14,522	$56,327
	MONTHLY		$3,484		$1,210	$4,694
NSP(MN)	ANNUAL	72.77%	$682,099	72.77%	$236,941	$919,040
	MONTHLY		$56,842		$19,745	$76,587
NSP(ND)	ANNUAL	6.92%	$64,864	6.92%	$22,532	$87,395
	MONTHLY		$5,405		$1,878	$7,283
		100.0%	$937,335	100.0%	$325,603	$1,262,938

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The Company analyzed the impact to MISO MVP portfolio rates and on NSP System (NSPM and NSPW) customers under an alternative construction cost scenario. Assumptions are stated below.

- Used Present State of the MVP portfolio
  - Based on MISO's Schedule 26a indicative estimate with company-by-company fixed charge rates, project ownership, and project in service dates and cost estimates from the local Transmission Owner(s).
  - No additional costs associated with the projects
- Alternative Project Analyzed
  - Based on MISO's Schedule 26a indicative estimate with company-by-company fixed charge rates, project ownership, and project in service dates and cost estimates from the local TOs.
  - Project change evaluated: Ameren Transmission Illinois (ATXI) Palmyra Tap- Quincy-Meredosia-Ipava-Pawnee 345 kV Line Project (MISO Project ID 3017). All other MVP portfolio projects remain unchanged.
  - Xcel Energy Transmission's indicative construction cost per mile was used instead of the ATXI estimated cost for the project.
  - Costs associated with development of an XETD bid included in the project cost estimate, detailed construction plan, schedules, project scope, annual revenue requirement, etc.
  - No other modifications were made to the MISO analysis.
  - Company reran the MISO total 20 year NPV of the MVP portfolio costs changing only the assumptions for the ATXI project.

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TRADE SECRET ENDS]

Results:

The 20 year net present value of the estimated potential savings to NSP customers with XETD constructing and owning the project is **[TRADE SECRET BEGINS TRADE SECRET ENDS]**

Limitations:

The cost estimate provided for here does not represent an official Xcel Energy cost estimate of the project, but is intended to reflect the potential cost savings associated with an Xcel Energy Transco constructing a future transmission project outside the NSP service area.

Project 3017 in service date was not incorporated into the analysis. The adjustment should have minimal impact on the conclusions.

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	Fixed Charge Rate (FCR)	Project 3017 ARR			Attachment MM (MVP Portfolio) ARR		Cost Savings to NSP Pricing Zone		
							NSP Annual MVP Expense	Adjusted NSP Annual MVP Expense	
Formula		[B] * [ATXI Cost]	[B] * XE Cost	[D] - [C]		[F] - [E]	[NSP MW-Hr %] * [F]	[NSP MW-Hr %] * [G]	[H] - [I]
A	B	C	D	E	F	G	H	I	J
Year	**ATXI**	**Existing**	**XETD Build**	**Difference**	**Existing**	**XETD Build**	**Existing**	**XETD Build**	**Difference**
	[TRADE SECRET BEGINS								
1									
2									
3									
4									
5									
6									
7									
8									
9									
10									
11									
12									
13									
14									
15									
16									
17									
18									
19									
20									
Total									
NPV									

Assumptions
NSP MW-HR %
Project 3017 Relative %
Discount Rate
XETD FCR similar to ATXI

Cost Estimate
ATXI
Xcel Energy

TRADE SECRET ENDS]

CERTIFICATE OF SERVICE

I, Tiffany Hughes, hereby certify that I have this day served a summary 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-14-759

Dated this 26th day of January 2015

/s/

____

Tiffany Hughes
Records Analyst

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