

October 7, 2015

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

**RE: Supplemental Response Comments of Minnesota Department of Commerce, Division of Energy Resources to the Reply Comments of Northern States Power Company**  
Docket No. E,G002/D-15-46

Dear Mr. Wolf:

Attached please find the Minnesota Department of Commerce, Division of Energy Resources' (Department) Supplemental Response Comments to the October 1, 2015 Supplemental Reply Comments of Northern States Power Company, doing business as Xcel Energy (Xcel).

The Department appreciates the updated information Xcel provided in their October 1, 2015 Supplemental Reply comments for the Department's tables included in our September 21, 2015 Response comments. The revised information provided in the table titled "2016 Depreciation Impact of Supplemental Life Adjustments (\$s in millions)" at the bottom of page 2 of Xcel's Supplement Reply comments is especially informative in summarizing the following changes and recommended adjustments:

- Xcel's correction of an error for net salvage rates for Sherco, with which the Department agrees, is reflected in Xcel first column "Xcel Energy Proposed Lives".
- Depreciation expense with and without probabilities, based on the Minnesota Public Utilities Commission's (Commission) decision in Docket No. E,G999/CI-13-626 at the October 1, 2015 Commission Agenda, in the column "Without Probabilities" is the appropriate depreciation expense to use, as noted by Xcel on page 3 of their Supplemental Reply comments.
- Xcel shows the impact to depreciation expense for the Department's three recommended changes to depreciation remaining lives in our September 21, 2015 Response comments for Sherco Unit 2 from 7 to 10 years,<sup>1</sup> Granite City Units 1 to 4 from 3.4 to 8 years, and Angus C. Anson Units 2 and 3 from 3.8 to 10 years, resulting in the Department's overall \$3.6 million decrease in depreciation expense, compared to Xcel's \$6.5 million increase in depreciation expense.

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<sup>1</sup> The Department was surprised that Sherco Units 1 and 2 are treated as a single asset in Xcel's property records. However, we agree with the Company's calculation assumptions to keep Account 311, Structures and Improvements, for the longer life of ten years and to evenly split all other FERC accounts between the two units.

Xcel's noted on page 3 of their Supplemental Reply comments that it is premature to adjust the remaining lives of these units at this time, as the Department has recommended, because the 2016-2030 Resource Plan (Docket No. E002/RP-15-21) is an open docket, and a decision about the retirement date will depend on the outcome of that filing. Xcel also noted that it is committed to updating financial remaining lives in future annual filings or in the upcoming rate case, following the outcome of the Resource Plan.

The Department notes that Granite City Units 1 to 4 and Angus C. Anson Units 2 and 3 are not being debated in the current IRP, so no additional information will be provided in the IRP as suggested by Xcel and therefore it is not premature to make a decision about depreciation lives for these plants.

In addition, Xcel's October 2<sup>nd</sup> IRP Reply comments recommended that Sherco Unit 2 be retired in 2023 (or an 8 year remaining life) and Sherco Unit 1 be retired in 2026 (or an 11 year remaining life). In the depreciation study, the Department recommended in our Response comments not to change the current remaining life of 7 years for Sherco 1, and extend the remaining life of Sherco 2 from 7 to 10 years. As a result, the Department's recommendations synch up well and in fact are 1 year shorter, or slightly more conservative, than Xcel's most recent IRP proposal. (The Department notes and does not object to Xcel's preference for retiring Sherco 2 before Sherco 1 for various operational reasons. The Department notes that assigning either Sherco Unit 1 or Sherco Unit 2 does impact depreciation accounting as discussed in footnote 1 of these comments.)

This table captures the changes in Xcel's IRP and remaining life (RL) depreciation study:

	<u>Xcel's IRP</u>	<u>Xcel Revised IRP</u>	<u>DOC RL</u>	<u>DOC Revised RL</u>
Sherco 1	10-15 yrs	11 yrs	7 yrs	10 yrs
Sherco 2	10-15 yrs	8 yrs	10 yrs	7 yrs

Thus, the Department recommends for depreciation expense/remaining lives purposes that Sherco Unit 1 be assigned a 10 year remaining life and Sherco Unit 2 be assigned the 7 year remaining life (current remaining life without any changes). This change has no financial impact to depreciation expense because of the Company's assumptions used to split Sherco Units 1 and 2.

In summary, the Department agrees with the Company's revised information in its Supplemental Reply comments filed October 1, 2015, except for the recommendation to defer the decision on depreciation remaining lives until the outcome of the IRP. For Granite City and Angus C. Anson there will be no new information, and for Sherco Units 1 and 2, the Department's recommended lives are consistent with any parties proposal in the IRP docket and one year more conservative (to the benefit of the Company because they will recover the plant investment one year sooner) for both Sherco Units.

The Department would appreciate a timely decision in this depreciation docket to allow the depreciation expense adjustments to be reflected in Xcel's upcoming multi-year rate case. The Department has concerns that because of the Clean Power Plan and other factors, the IRP decision may not be decided until the next IRP and as a result may not be incorporated in the upcoming rate case, to the detriment of ratepayers.

Even if the Commission went beyond the recommendations in the IRP proceeding and made a decision in the IRP docket that resulted in shorter lives, an adjustment for depreciation expense could be made in the upcoming rate case or depreciation study, if needed.

Thus, the Department recommends a 10 year remaining life for Sherco 1 and a 7 year remaining life for Sherco 2 (consistent with already approved remaining life); so that the accounting/depreciation will better match expected operational/IRP lives.

The Department is available to answer any questions the Commission may have.

Sincerely,

/s/ NANCY A. CAMPBELL  
Financial Analyst

/s/ MICHELLE ST. PIERRE  
Financial Analyst

NC/MS/lt

## **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  
Supplemental Response Comments**

**Docket No. E,G002/D-15-46**

**Dated this 7<sup>th</sup> day of October 2015**

**/s/Sharon Ferguson**

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