



414 Nicollet Mall
Minneapolis, MN 55401

January 28, 2012

—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 – CORRECTED
FIVE-YEAR TRANSMISSION, DISTRIBUTION, AND
GENERAL DEPRECIATION STUDY
DOCKET NO. E002/D-12-858

Dear Dr. Haar:

Northern States Power Company submits for filing the enclosed corrected version of our Reply Comments in the matter referenced above. We realized that we neglected to include Attachment A in the Reply Comments we submitted on January 25, 2013. Attached is a complete copy of the Reply Comments including Attachment A. We apologize for any inconvenience this oversight may have caused.

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 lisa.h.perkett@xcelenergy.com or (612) 330-6950 if you have any questions regarding this filing.

SINCERELY,

/s/

LISA H. PERKETT
Director, Capital Asset Accounting

Enclosures
c: Service List

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

| | |
|-------------------------|--------------|
| Beverly Jones Heydinger | Chair |
| David C. Boyd | Commissioner |
| J. Dennis O'Brien | Commissioner |
| Phyllis A. Reha | Commissioner |
| Betsy Wergin | Commissioner |

IN THE MATTER OF THE PETITION OF
NORTHERN STATES POWER COMPANY
FOR CERTIFICATION OF ITS FIVE-YEAR
TRANSMISSION, DISTRIBUTION, AND
GENERAL DEPRECIATION STUDY

DOCKET NO. E002/D-12-858

REPLY COMMENTS

OVERVIEW

Northern States Power Company, doing business as Xcel Energy, submits to the Minnesota Public Utilities Commission this Reply to the Comments of the Minnesota Department of Commerce, Division of Energy Resources and the Xcel Large Industrials on our Five-Year Transmission, Distribution, and General Depreciation Study.

We appreciate the Department's thorough review of our Study and their recommendation for approval of our proposed average service lives, average remaining lives, net salvage rates, and resulting depreciation rates. The Department also recommends approval of our request to change from an average service life to an average remaining life depreciation methodology, as well as the redistribution of depreciation reserves for our electric assets.

We differ with the Department on their recommendation that Commission deny our proposal to redistribute depreciation reserves for gas and common assets at this time. The Department indicates redistribution of gas depreciation reserves could be requested when we file our next gas rate case. However, we believe the Commission's rules requiring depreciation filings separate from rate cases would support a Commission decision to allow the Company to redistribute the depreciation reserve for common and gas assets effective January 1, 2013 for several reasons:

- The change to the average remaining life methodology is an appropriate trigger point to reallocate the depreciation reserves.

- Requiring that changes to depreciation occur only in a rate case test year presents issues related to common assets that are allocated to both electric and gas operations. Unless the Company were in simultaneous electric and gas rate cases, the Company could not implement changes to common assets, even if the depreciation analysis indicated a change was necessary.
- Because we are required by Commission rules to make depreciation filings on a schedule that may not match the timing of a rate case, depreciation changes outside of rate cases have been allowed in Minnesota as reflective of the best information available at the time.
- We recognize the Department and Commission have encouraged coordination of these changes with rate cases where possible; we are supportive of that coordination, but do not believe it precludes changes outside of cases. We are open to a discussion with the Commission if such a formal policy change is preferred.

We also appreciate the Comments of the Xcel Large Industrials which focus on the relationship between this docket and our current electric rate case. Specifically, XLI is concerned that the Commission's decision in this docket impacts the Commission's authority to address depreciation issues in our rate case. We believe the Commission can clarify that these issues remain available to be addressed in the rate case.

We appreciate the review of our 2012 Depreciation Study by the parties and provide our Reply to their specific Comments below.

REPLY

A. Response to the Department

The Department recommends approval of our proposal to change from an average service life methodology to an average remaining life methodology for our electric, gas, and common assets, which is the same methodology we currently use for production assets. Use of the remaining life methodology eliminates the difference between the actual and theoretical reserve surplus (or deficit) over the remaining lives of the assets.

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. While the remaining life methodology will mitigate the magnitude of any reserve surplus or deficit in future periods, redistribution of the reserves is appropriate now to set the appropriate depreciation rates for each functional class of assets. Without the

redistribution, individual asset accounts within the functional class may over-amortize a surplus or under-amortize a deficit, with the net impact being not balancing out at the functional class level. In addition, we do not believe redistribution at this time will set trend for future redistributions. Future redistributions would not be needed unless we experience a significant change in the average life of a group of assets, which we do not believe is likely. 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.

Further, we do not believe it would be appropriate to hold all depreciation changes for common assets until a common rate case test year occurs. Depending on the asset, approximately 80 to 93 percent of the common asset is allocated to electric utility operations. Because the substantial majority of depreciation expense for common assets is allocated to electric operations, the overall change to the depreciation rate for common assets is appropriate in conjunction with an electric rate case. Thus, if the Commission's general policy desire is to match depreciation changes to rate cases, we think that as a practical matter, common asset changes are appropriately made in conjunction with electric cases.

The depreciation expense for the portion of common assets allocated to electric operations is included in our current rate case, pending the Commission's decision in this docket. With the goal matching depreciation expense with the useful lives of assets to ensure current customers pay the current cost of service, we believe our proposal should be included in the test year as it reflects the most current information available for these assets.

If the Commission instead elects the Department's proposal for common assets, this would result in a \$946,783 reduction to the total company electric depreciation expense. The corresponding 2013 impact to our gas utility operations would be a depreciation expense reduction of \$145,203.

While we appreciate the Department's concern about making depreciation changes outside of a test year, we continue to believe that such changes are appropriate. We believe Commission decisions in each depreciation proceeding – determining depreciation changes based on the record in each case – is appropriate as this is what Commission rules contemplate. However, we recognize that the Commission is not required to approve the Company's proposals in depreciation proceedings and can make a different determination about when to implement depreciation changes. If the Commission determines the reserve redistribution for gas assets is not appropriate

at this time, we would include this change in our next annual depreciation filing or gas rate case, whichever comes first.

If the Commission instead adopts the Department's recommendation for gas assets, this would result in an increase in depreciation expense of approximately \$2.2 million in 2013 compared to the Company's proposal. Additional detail is provided in Attachment A.

B. Response to Xcel Large Industrials

The Direct Testimony of Ms. Lisa Perkett in our current rate case (Docket No. E002/GR-12-961) states that our proposals in this depreciation docket are already incorporated into the rate case test year, and if the Commission makes a decision in this depreciation proceeding that results in different depreciation expense than what we have proposed, we will incorporate those changes into the test year revenue requirement in our rate case. This is consistent with how we generally propose to handle Commission decisions in depreciation proceedings pending during our rate cases.

It was not our intent to argue that a decision in this depreciation docket controls the Commission's revenue requirement decision in our rate case. Rather, since the proposals we made in this Depreciation Study proceeding were incorporated our rate case prior to Commission approval of the Study, the intent of our testimony was to avoid any appearance that we presumed Commission acceptance of our proposals. Rather, we state we would make any necessary adjustments at the Commission's direction.

Because of the connection between this depreciation proceeding and our rate case, XLI provides two options for the Commission's consideration: 1) merge this current depreciation docket with the rate case for a detailed consideration of depreciation issues in the rate case; or 2) include a qualification in the Commission's order that any approval in this depreciation proceeding is subject to resolution of depreciation issues in our rate case. As the current Commission process appropriately deals with these concerns, we respectfully recommend that the Commission deny these requests.

Our preference would be that the Commission not merge this docket into the rate case. We believe the Commission and parties have derived value from having separate annual depreciation filings. We agree with XLI that the Commission has the discretion to approve depreciation expense different than what was approved in a depreciation docket, under Minn. Rule 7825.0900. The Commission did this in approving the depreciation expense reduction as part of the Settlement Agreement in

our last rate case (Docket No. E002/GR-10-971). Additionally, while the benefits of that agreement continue through our use of the remaining life methodology, a Commission Order in this depreciation proceeding would not preclude XLI or another party from making any arguments in the rate case related to depreciation or to propose a different method to deal with the depreciation reserve surplus. We will leave to the Commission whether it believes additional clarification regarding this process and its relation to rate cases is necessary.

CONCLUSION

Based on the analysis presented in our 2012 Depreciation Study, our proposed average service lives, remaining lives, and net salvage rates are reasonable as they better reflect actual operating expectations and environmental requirements. In addition, our proposed change from an average service life to an average remaining life methodology allows for an automatic true-up of differences between the theoretical and actual reserves over the remaining lives of the assets. We believe it is appropriate to redistribute the depreciation reserves for electric, gas, and common assets concurrent with this methodology change to correctly set depreciation rates for all assets under this new methodology. Because under Minnesota rules we are required to make depreciation filings outside of rate cases, we believe it remains appropriate for the Commission to approve all components related to changes to depreciation lives and rates for our electric, gas, and general assets in this docket.

For the reasons presented in our Petition and this Reply, we respectfully request that the Commission approve our proposal as filed on July 31, 2012, with an effective date of January 1, 2013.

Dated: January 25, 2013

Northern States Power Company

Five-Year Depreciation Study for Transmission, Distribution, and General Assets

**Docket No. E,G002/D-12-858
Reply Comments
Attachment A**

| | Department Proposal Expense Change without Redistribution for Gas and Common | Company Proposal Expense Change with Redistribution for Electric, Gas, and Common | Difference Department over Company Proposal |
|-------------------------------|--|---|--|
| | [a] | [b] | [c]=[a]-[b] |
| Total Utility Expense Changes | | | |
| Electric Utility | \$ 1,623,140 | \$ 1,623,140 | \$ - |
| Gas Utility | (1,548,214) | (3,790,556) | 2,242,342 |
| Common Utility (Unallocated) | (425,383) | 666,603 | (1,091,986) |
| Total | <u>\$ (350,457)</u> | <u>\$ (1,500,813)</u> | <u>\$ 1,150,355</u> |

| | Department Proposal Expense Change without Redistribution for Gas and Common | Company Proposal Expense Change with Redistribution for Electric, Gas, and Common | Difference Department over Company Proposal |
|---|--|---|--|
| | [a] | [b] | [c]=[a]-[b] |
| Total Utility Expense Changes (Common Allocated) (1) | | | |
| Electric Utility | \$ 1,623,140 | \$ 1,623,140 | \$ - |
| Common Utility-Electric Allocation | \$ (368,820) | \$ 577,964 | \$ (946,783) |
| Total Electric Utility | <u>\$ 1,254,321</u> | <u>\$ 2,201,104</u> | <u>\$ (946,783)</u> |
| Gas Utility | \$ (1,548,214) | \$ (3,790,556) | \$ 2,242,342 |
| Common Utility-Gas Allocation | \$ (56,564) | \$ 88,639 | \$ (145,203) |
| Total Gas Utility | <u>(1,604,778)</u> | <u>(3,701,917)</u> | <u>2,097,139</u> |
| Total | <u>\$ (350,457)</u> | <u>\$ (1,500,813)</u> | <u>\$ 1,150,355</u> |

Notes:

(1) The Common Allocation Factor is the composite split between electric (86.7029%) and gas (13.2971%) utility for the depreciation change to Common General Plant and Common Intangible Plant.

CERTIFICATE OF SERVICE

I, SaGonna Thompson, hereby certify that I have this day served copies of the foregoing document or a summary thereof on the attached list of persons.

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

xx via electronic filing

Docket No. E002/D-12-858

Dated this 28th day of January 2013

/s/

SaGonna Thompson

| First Name | Last Name | Email | Company Name | Address | Delivery Method | View Trade Secret | Service List Name |
|------------|-----------|-----------------------------------|------------------------------------|--|--------------------|-------------------|------------------------|
| Julia | Anderson | Julia.Anderson@ag.state.mn.us | Office of the Attorney General-DOC | 1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134 | Electronic Service | Yes | OFF_SL_12-858_Official |
| Sharon | Ferguson | sharon.ferguson@state.mn.us | Department of Commerce | 85 7th Place E Ste 500 Saint Paul, MN 551012198 | Electronic Service | No | OFF_SL_12-858_Official |
| Burl W. | Haar | burl.haar@state.mn.us | Public Utilities Commission | Suite 350 121 7th Place East St. Paul, MN 551012147 | Electronic Service | Yes | OFF_SL_12-858_Official |
| James | Johnson | james.p.johnson@xcelenergy.com | Xcel Energy Services Inc. | 414 Nicollet Mall 5th Floor Minneapolis, MN 55401 | Electronic Service | No | OFF_SL_12-858_Official |
| John | Lindell | agorud.ecf@ag.state.mn.us | Office of the Attorney General-RUD | 1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130 | Electronic Service | No | OFF_SL_12-858_Official |
| SaGonna | Thompson | Regulatory.Records@xcelenergy.com | Xcel Energy | 414 Nicollet Mall FL 7 Minneapolis, MN 554011993 | Electronic Service | No | OFF_SL_12-858_Official |