



414 Nicollet Mall
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June 11, 2015

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

—Via Electronic Filing—

RE: COMPLIANCE FILING – BABCOCK & WILCOX SETTLEMENT
XCEL ENERGY ELECTRIC RATE CASE
DOCKET No. E002/GR-13-868

Dear Mr. Wolf:

Northern States Power Company, doing business as Xcel Energy, submits to the Minnesota Public Utilities Commission's this Compliance Filing regarding the recent settlement of the Babcock & Wilcox Nuclear Energy, Inc. (BWNE) litigation per the Commission's May 8, 2015 Findings of Fact, Conclusions and Order in the above noted docket.

Specifically, the Commission's Order requires:

31. *Upon resolution of the lawsuit involving Babcock & Wilcox Nuclear Energy, Inc., the Company shall make a compliance filing providing all relevant information as to costs and interest paid and discuss what costs were included as Plant in Service in this rate case.*
32. *Any costs included in rate base but not paid shall be refunded as part of either the 2014 or 2015 refunds. If the lawsuit is not resolved at either of those times, then the refund should be made within 60 days after the lawsuit is resolved.*
33. *The Company shall make a compliance filing within 30 days of completing the refund. The compliance filing should provide information detailing the refund and about the resolution of the lawsuit. The compliance filing should describe the amount not paid to Babcock & Wilcox that remains in rate base and the revenue-requirement effect of that amount so the Commission can consider whether to require Xcel to track that amount for return to ratepayers in Xcel's first rate case subsequent to the resolution of the lawsuit.*

In summary, BWNE was hired as a subcontractor for the Prairie Island Unit 2 steam generator replacement project. At issue in the litigation was a dispute over approximately \$46 million that BWNE claimed it was owed for its work, along with interest on the disputed amount. As noted in our June 3, 2015 letter in this docket, we were recently able to settle the dispute between the Company and BWNE and are pleased to report that it provides a favorable outcome for our customers. While the majority of details surrounding the settlement are confidential, we were able to settle the pending litigation with BWNE and the co-defendant, SNC-Lavalin Nuclear (USA) for approximately \$36 million, which is approximately \$10 million less than BWNE's claim.

At the time we filed this rate case and up until we recently settled this dispute, we had not paid the amounts in dispute with BWNE. We did, however, accrue \$40 million for the invoiced work performed by BWNE prior to the project's "guaranteed acceptance date" of April 2014. Of the \$40 million accrued, approximately \$29 million was included in the \$285 million in plant in service for the PI steam generator and the remaining \$11 million was for removal costs that reduced accumulated depreciation. Our accrual accounting relied on the Federal Energy Regulatory Commission's (FERC) guidance, which is consistent with the provisions of Generally Accepted Accounting Principles (GAAP). Specifically, FERC's Uniform System of Accounts, Electric Plant Instruction No. 3. A. (1) notes that contract work, as a component of construction costs, includes amounts paid for work performed under contract. Our understanding of FERC's instruction, based on past audits, includes the accruals for future contract payments billed by the vendor but retained without payment pending the resolution of contract disputes or final acceptance of work.

With the constructive settlement of the lawsuit, the 2014 plant in service beginning balance will be reduced by \$2.8 million and accumulated depreciation beginning balance will be increased by \$1.2 million, respectively, to account for the \$4 million difference between the \$40 million accrued and the \$36 million settled.

As detailed in Attachment A to this letter, the \$4 million (\$2.9 million allocated to the Minnesota jurisdiction) difference between the accrual and the actual settlement amount equates to a reduction to Minnesota jurisdictional revenue requirements of \$367,000. Accordingly, we commit to refunding the \$367,000 to our customers with our 2014 refunds. To do so, we will adjust our 2014 final revenue requirements downward by this amount and calculate our refunds based on this

adjusted amount. Additionally, as also shown on Attachment A, our final 2014 test year rate base will be reduced by \$2.1 million so that rates after 2014 will reflect this adjustment.

This action is consistent with the Commission's Order and appropriate because it recognizes that the settlement terms were favorable for our customers while also acknowledging the costs associated with the PI steam generator project that was placed in service in December 2013 and was used and useful for all of 2014. Since the refund will be based on our 2014 revenue requirement calculation, and our rate base will also be accordingly adjusted going forward, it will necessarily carry forward into the 2015 calculation as well. No further treatment is necessary since the PI steam generator was not a 2015 step project.

We have electronically filed this document with the Commission, which also constitutes service on the Department of Commerce and the Office of the Attorney General – Antitrust and Utilities Division. A copy of this filing has been served on all parties on the official service list in this docket.

Please contact me at (612) 215-4663 if you have any questions regarding this Compliance Filing.

Sincerely,

/s/

AAKASH CHANDARANA
REGIONAL VICE PRESIDENT
RATES AND REGULATORY AFFAIRS

Enclosures
c: Service List

Northern States Power Company
 Prairie Island BWNE Outcome
 2014 Revenue Requirement Adjustment

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 Attachment A
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Amounts in \$000s	A	B	C		D	E = A + C		F = B + D	
	Original Accrual		Adjust for Settlement Result		Result after Adjustment				
	74.3399%		74.3399%		74.3399%				
	Adjusted	After I/A	Adjusted	After I/A	Adjusted	After I/A			
	Total Co	MN Jur	Total Co	MN Jur	Total Co	MN Jur			
1 Plant Investment	28,972	21,538	(2,834)	(2,107)	26,138	19,431			
2 Removal	11,834	8,797	(1,122)	(834)	10,712	7,963			
3 Plant plus Removal	40,806	30,335	(3,956)	(2,941)	36,850	27,394			
4 Depreciation Reserve excl Removal	979	728	(95)	(71)	884	657			
5 CWIP	-	-	-	-	-	-			
6 Accumulated Deferred Taxes	9,822	7,302	(989)	(736)	8,832	6,566			
7	30,005	22,305	(2,871)	(2,134)	27,134	20,171			
8									
9 Average Rate Base	30,005	22,305	(2,871)	(2,134)	27,134	20,171			
10									
11 Debt Return	672	500	(64)	(48)	608	452			
12 Equity Return	1,530	1,138	(146)	(109)	1,384	1,029			
13 Current Income Tax Requirement	1,195	888	(122)	(90)	1,073	798			
14									
15									
16 Book Depreciation	1,840	1,368	(179)	(133)	1,661	1,235			
17 Annual Deferred Tax	(51)	(38)	18	13	(33)	(25)			
18 ITC Flow Thru	-	-	-	-	-	-			
19 Tax Depr & Removal Expense	1,626	1,209	(135)	(100)	1,491	1,109			
20 AFUDC Expenditure	-	-	-	-	-	-			
21 Avoided Tax Interest	-	-	-	-	-	-			
22 Total Revenue Requirement Adjustment	5,186	3,855	(493)	(367)	4,693	3,489			

NOTE:

The depreciation reserve and removal are shown separately to illustrate the total contract costs.

Capital Structure

Long Term Debt
 Short Term Debt
 Preferred Stock
 Common Equity
 Required Rate of Return
 Tax Rate (MN)

	At Newly Authorized	
Rate	Ratio	Weighted Cost
4.9000%	45.6000%	2.2300%
0.6200%	1.9000%	0.0100%
0.0000%	0.0000%	0.0000%
9.7200%	52.5000%	5.1000%
		7.3400%
41.3700%		

CERTIFICATE OF SERVICE

I, Lynnette M. Sweet, 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; or

xx by electronic filing.

MPUC Docket No: E002/GR-13-868

Dated this 11th day of June 2015.

/s/

Lynnette M. Sweet

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