

August 18, 2017

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

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E,G002/D-17-147

Dear Mr. Wolf:

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

Northern States Power Company's (Xcel) 2017 Annual Review of Remaining Lives.

The petition was filed on February 17, 2017 by:

Lisa H. Perkett
Principal Financial Consultant, Capital Asset Accounting
Xcel Energy
414 Nicollet Mall, 401 – 3rd Floor
Minneapolis, MN 55401

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

Sincerely,

/s/ CRAIG ADDONIZIO
Financial Analyst

CA/ja
Attachment

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E,G002/D-17-147

I. SUMMARY OF THE UTILITY'S PROPOSAL

On February 17, 2017, Northern States Power Company, doing business as Xcel Energy (Xcel or the Company), filed its 2017 Review of Remaining Lives Petition (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 and gas storage facilities. Specifically, the Company requested:

- to establish a remaining life for its St. Croix Falls Hydro Production Plant of 11 years;
- to extend the remaining life for Angus Anson Units 2 and 3 from 9 years to 14 years;
- to reduce the remaining life for Blue Lake Units 1-4 from 7 years to 2.5 years;
- to reduce the remaining life for Granite City from 7 years to 2.5 years;
- to establish a remaining life and net salvage rate for the Courtenay Wind facility of 25 years and negative 8.5 percent, respectively;
- to make 1-year passage of time adjustments for the remaining lives for all other electric and natural gas production and gas storage facilities; and
- no changes to any other salvage rates.

Xcel requested that its proposed depreciation parameters and rates be approved effective January 1, 2017. The net effect of the proposed changes is an increase in total company depreciation expense of \$139,639, or 0.04 percent.

In addition to the requested changes related to Xcel's electric and natural gas production plants, the Company requested Commission approval of amortization rates for regulatory assets created pursuant to the Commission's decision to require Xcel to amortize the theoretical depreciation reserve surplus associated with its transmission, distribution, and general plant account in a prior rate case.

II. ADDITIONAL BACKGROUND

Xcel's most recent remaining life depreciation petition was filed on May 18, 2015 in Docket No. E,G002/D-15-46 (the 2015 Depreciation Docket). In that Docket, Xcel requested, and the Commission approved, depreciation parameters and rates to be effective on a prospective basis, on January 1, 2016, rather than on January 1, 2015, which would have been consistent

with Xcel's past practice. The intent behind requesting depreciation rates to be effective on a prospective basis was to align the proposed depreciation rates with the test year in Xcel's rate case filed later in 2015 (Docket No. E002/GR-15-826, or the 2015 Rate Case).

Due to the timing of the Commission's Order in the 2015 Depreciation Docket, Xcel was unable to fully incorporate the changes required by the Commission in the 2015 Depreciation Docket into its initial filing in the 2015 Rate Case. In its initial filing, Xcel committed to incorporate those changes as the case progressed.¹ The Minnesota Department of Commerce, Division of Energy Resources' (Department) Direct Testimony in the 2015 Rate Case, however, fully reflected the Commission's Order in the 2015 Depreciation Docket. The rate increases agreed to in the August 16, 2016 Stipulation of Settlement (Settlement) in the 2015 Rate Case, which the Commission approved in its June 12, 2017 Order, were largely informed by the Department's position in Direct Testimony. Therefore, the depreciation parameters and rates approved in the 2015 Depreciation Docket are reflected, if indirectly, in the rates established in the 2015 Rate Case. The changes proposed by the Company in its Petition in this Docket would result in depreciation rates that differ from those reflected in the 2015 Rate Case.

Because the depreciation rates established in the 2015 Depreciation Docket became effective on January 1, 2016, Xcel did not make a remaining life depreciation filing in 2016.

III. DEPARTMENT ANALYSIS

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. 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.

After review, the Department concludes that Xcel's Petition complies with all applicable rules.

B. COMPLIANCE WITH PRIOR COMMISSION ORDERS

The Commission's November 13, 2015 Order (the 2015 Depreciation Order) in Docket No. E,G002/D-15-46 (the 2015 Depreciation Docket) required Xcel to:

¹ See the Direct Testimony of Lisa H. Perkett in the 2015 Rate Case (Hearing Exhibit 61), page 29, lines 12-20.

- file its 2017 remaining life depreciation petition by February 17, 2017;
- continue to provide in future depreciation filings a comparison of depreciation remaining lives and resource planning lives for electric production assets with an explanation of any differences;
- continue to provide in future depreciation filings a historical comparison of changes in remaining lives and net salvage rates;
- continue to provide in future depreciation filings updates on removal costs for the Minnesota Valley plant, Key City Plant, Black Dog Units 3 and 4, including the impact on depreciation reserves, and a final true up when the retirement/removal is complete;

After review, the Department concludes that Xcel's Petition reasonably complied with the 2015 Depreciation Order.

C. ANALYSIS OF PROPOSED CHANGES TO REMAINING LIVES AND SALVAGE RATES FOR ELECTRIC PRODUCTION FACILITIES

1. St. Croix Falls Hydro Production Plant

Xcel's St. Croix Hydro Production Plant is a 25.9-megawatt (MW) generating facility located in St. Croix Falls, Wisconsin. Most of the plant installed at the facility is owned by NSP-Wisconsin; however, NSP-Minnesota owns the plant installed on the Minnesota side of the St. Croix River, which consists of one small control house and one tainter (spillway) gate.² The remaining life for this property was allowed to expire at the end of 1996. Since that time, there had not been any major capital additions to the NSP-Minnesota portion of the facility until 2016, and therefore there had been no reason to establish a new remaining life, even though the facility was still in service.³ In July 2016, the Company completed a capital project⁴ to replace the overlay wall on the Minnesota side of the river⁵, with a capitalized value of \$2.3 million.⁶

Rather than expensing the full \$2.3 million in 2016, as would be required if no remaining life were established, the Company, in its 2015 Rate Case, proposed to establish a remaining life for the facility of 12 years beginning January 1, 2016. The 12-year life corresponds with the facility's current FERC operating license, which is set to expire on December 31, 2027. The Department did not object to the Company's proposal in the 2015 Rate Case, and the capital

² Petition, page 5.

³ See Hearing Exhibit 61 in the 2015 Rate Case (the Direct Testimony Xcel Witness Lisa H. Perkett), pages 38-39.

⁴ Petition, page 5.

⁵ See the Direct Testimony Xcel Witness Lisa H. Perkett (Hearing Exhibit 61) in the 2015 Rate case, pages Page 38, line 17.

⁶ Petition, Attachment B, page 6.

project and the proposed life extension were reflected in the Department's overall position on financial issues in Direct Testimony.⁷

In its Petition, the Company proposed a remaining life of 11 years for the St. Croix Hydro facility, which reflects a 1-year passage-of-time adjustment from the remaining life contemplated in the 2015 Rate Case. The Department concludes that Xcel's proposed remaining life extension for the St. Croix Hydro Production Plant, which is based on the facility's current FERC operating license, is reasonable. The Department also notes that the proposed remaining life is consistent with the life approved by the Wisconsin Public Service Commission for the other property at the St. Croix Hydro facility.

2. Angus Anson Units 2 and 3

In the 2015 Depreciation Docket, the Commission approved a remaining life extension for Angus Anson Units 2 and 3, from 3.8 years to 10 years as of January 1, 2016. As explained in the Department's July 17, 2015 Comments in that Docket, the life extension was justified for the following reasons:⁸

- Xcel's then-current integrated resource plan (the 2015 IRP, Docket No. E002/RP-15-21) assumed that the units would operate through at least 2030, the last year in the planning period in the resource plan, which implied a remaining life of at least 15 years as of January 1, 2016;
- at the time, no capital expenditures were planned for the unit, and the Department concluded that capital additions would likely not be needed for the units to achieve the 15-year remaining life implied by the 2015 IRP;
- approval of a 10-year remaining life, rather than a 15-year remaining life, would appropriately balance the goals of (a) allocating depreciation expense for the units over time to reasonably distribute the costs across the customers who benefit from the operation of the units, and (b) ensuring that the Company has a reasonable opportunity to recover in rates the full cost of the units.

A standard passage-of-time adjustment for Angus Anson Units 2 and 3 would result in a 9-year remaining life as of January 1, 2017. Xcel, however, has proposed a 5-year life extension, or a 14-year remaining life as of the beginning of the year. In its Petition, the Company stated that the latest capital forecast for these two units has been updated to include replacement of turbine vanes, turbine blades, and the generator breaker.⁹ These investments are expected to

⁷ See Hearing Exhibit 808 in the 2015 Rate Case (the Direct Testimony of Dale V. Lusti), DOC Ex. ___ DVL-9 (Second Errata).

⁸ See the Department's July 17, 2015 Comments in the 2015 Depreciation Docket, page 13.

⁹ Petition, page 6. See also Department Attachment No. 1

total \$25.5 million, and are expected to occur between 2019 and 2022. This life extension would result in a decrease in annual depreciation expense of \$0.8 million.

The Department recognizes that the Company's proposed life extension would result in a match between the unit's IRP and depreciation remaining lives, however, when a life extension is based on capital investments, the Department typically prefers to wait until those capital additions are either imminent or completed to extend a unit's life. For example, in Docket No. E015/D-14-318, Minnesota Power requested a life extension effective January 1, 2014 for its Laskin Energy Facility based on investments expected to go in-service in late 2015. The Department recommended that the Commission deny Minnesota Power's requested life extension, as ratepayers would receive no operational benefits associated with the project until its completion, nearly 2 years in the future.¹⁰ Commission concluded that "Generally, life extensions from capital projects should be recognized close to or at the time the project is placed in service. Though work is underway on the Laskin project, it is not close enough to the project's completion date or in-service date to appropriately recognize that Laskin's service life has been extended."¹¹

As Xcel noted, the investments required for Angus Anson Units 2 and 3 to achieve the proposed remaining life are not expected to start until 2019, and are not expected to be completed until 2022, perhaps later, so there will be no operational benefits from these planned investments for at least a few years. It is also possible that circumstances may change between now and then that render the investments cost ineffective. Additionally, waiting to extend the units' remaining life would result in a smoother pattern of depreciation expense. Extending now would result in relatively lower depreciation expense now and relatively higher expense in the future.

Based on these observations, the Department recommends that the Commission approve a remaining life of 9 years for Angus Anson Units 2 and 3, reflecting a 1-year passage-of-time adjustment.

3. Blue Lake Units 1-4

Prior to the 2015 Depreciation Docket, the remaining life for Blue Lake Units 1-4 was allowed to expire at the end of 2012. However, a new decommissioning study undertaken in preparation of the 2015 Depreciation Docket resulted in a \$2.7 million increase in the decommissioning estimate for Blue Lake Units 1-4, and therefore a lower (i.e. more negative) salvage rate for the units. Absent a life extension, the increase in the decommissioning estimate would have been required to be expensed in full in 2016. In order to avoid expensing the full increase in one

¹⁰ See the Department's August 15, 2014 Comments, page 5, in Docket No. E015/D-14-318.

¹¹ See the Commission's January 16, 2015 Order, page 5, in Docket No. E015/D-14-318.

year, Xcel proposed in the 2015 Depreciation Docket to extend the remaining life of Blue Lake Units 1-4, from zero to eight years, beginning January 1, 2016. As explained in the Department's July 17, 2015 Comments in that Docket, the proposed 8-year remaining life was consistent with the 2015 IRP, which assumed that the units would provide reserve capacity through 2023 (8 years from January 1, 2016). Additionally, at the time, no capital expenditures were planned for the unit.

In its Petition in the instant Docket, however, the Company stated that it analyzed Blue Lake Units 1-4 during 2016 and determined that they would require substantial capital investment, approximately \$12.5 million, to sustain their operation.¹² Xcel also stated that it has determined that it would not be economically viable to make the necessary investments needed to maintain the units' functionality. The Company now expect to be able to economically maintain Blue Lake Units 1-4 through July 1, 2019, rather than the end of 2023. Xcel therefore proposed to reduce the units' remaining life from 7 years to 2.5 years as of January 1, 2017. This reduction would result in an increase in the unit's depreciation expense of \$0.6 million per year.

In the years that Blue Lake will be unavailable per Xcel's proposal, 2019-2023, Xcel is projected to have a capacity surpluses ranging from approximately 720 MW to 1380 MW.¹³ Even with loss of Blue Lake Units 1-4's capacity, 153 MW, Xcel will still have capacity surpluses in those years; the units' early retirement does not raise any reliability concerns. Thus, there is no need to make the capital investments required to ensure that the units can provide reserve capacity through 2023. Based on this, the Department concludes that Xcel's proposal to reduce the remaining life of Blue Lake Units 1-4 from 7 years to 2.5 years is reasonable.

4. Granite City

In the 2015 Depreciation Docket, the Commission approved a remaining life extension for Granite City, from 3.3 years to 8 years as of January 1, 2016. As explained in the Department's September 21, 2015 Response Comments in that Docket, the 8-year remaining life, through the end of 2023, was consistent the operational life assumed in the 2015 IRP. Additionally, at the time, no capital expenditures were planned for Granite City, and the Department concluded that capital additions would likely not be needed for the units to achieve the life assumed in the 2015 IRP.

In its Petition in the instant Docket, however, the Company stated that it analyzed the four units at Granite City and determined that they would require substantial capital investment, approximately \$8.0 million, to sustain their operation.¹⁴ Xcel also stated that it has determined

¹² See Department Attachment No. 2.

¹³ See Xcel's January 29, 2016 Supplemental Filing in its 2015 IRP, Table 6, page 18.

¹⁴ See Department Attachment No. 3.

that it would not be economically viable to make the necessary investments needed to maintain the units' functionality. The Company now expects to be able to economically maintain the units through July 1, 2019. Xcel therefore proposed to reduce the units' remaining life from 7 years to 2.5 years as of January 1, 2017. This reduction would result in an increase in depreciation expense of \$0.3 million per year.

Granite City's 4 units provide only 52 MW of capacity and are run infrequently, thus their early retirement, even combined with the early retirement of Blue Lake Units 1-4, will pose no reliability concerns. Further, as noted on page 7 of Xcel's Petition, Granite City is no longer capable of providing black-start capabilities to the Sherco Steam facilities as previously intended. Based on this, the Department concludes that Xcel's proposed change the remaining life of Granite City to run through June 30, 2019 to be reasonable. Further, the Department expects that Xcel has already changed its black-start plans to account for Granite City's inability to provide those capabilities.

5. Courtenay Wind

Courtenay Wind is a 200-MW wind farm located in east-central North Dakota, near the city of Courtenay. It was placed in-service in November 2016, and therefore was not addressed in the 2015 Depreciation Docket. However, in the 2015 Rate Case, the Company proposed a 25-year remaining life beginning November, 2016, the month Courtenay Wind was placed in service, and a negative 8.5 percent salvage rate. The Department did not object to the Company's proposal in the 2015 Rate Case, and the Department's overall financial position in Direct Testimony reflected the proposed 25-year remaining life and negative 8.5 percent salvage rate.

In its Petition, the Company proposed to establish a remaining life of 24.8 years as of January 1, 2017 for Courtenay Wind, and a salvage rate of negative 8.5 percent, both of which are consistent with the Company's position in the 2015 Rate Case. In its Petition, the Company noted that the 25-year life is consistent with the Company's other wind facilities, and with the expectations stated by the manufacturer of the turbines installed at the facility.

Both the Company's proposed remaining life and salvage rate are consistent with the Company's proposal in the 2015 Rate Case. The proposed 25-year life (from the November 2016 in-service date) is consistent with the Company's other wind facilities as well as industry standards, and the proposed salvage rate is consistent with the Company's Border Winds and Pleasant Valley Wind facilities. The Department concludes that the Company's proposed remaining life and salvage rate are reasonable.

6. All Other Remaining Lives and Salvage Rates

As noted above, Xcel proposed to adjust all other remaining lives by one year to reflect the passage of time. Xcel also proposed to leave all other salvage rates unchanged. The Department concludes that Xcel's proposals are reasonable.

D. UPDATES ON REMOVAL COSTS

In preparation for the 2015 Depreciation Docket, Xcel conducted a new dismantling study which resulted in increases to the decommissioning cost estimates for the Minnesota Valley and Key City plants, and decreases for Black Dog Units 3 and 4. Because the remaining lives of all three plants had expired and none were in service, the Company requested permission to reallocate depreciation reserves from other steam production plants to Minnesota Valley and Key City in order to avoid fully expensing the increases in the decommissioning assets, and to reallocate reserves from Black Dog Units 3 and 4 to other steam production units so that ratepayers would benefit from the reduction.

As noted above, the Commission's order in the 2015 Depreciation Docket required Xcel to continue to provide in future depreciation filings updates on removal costs for the Minnesota Valley plant, Key City Plant, Black Dog Units 3 and 4, including the impact on depreciation reserves, and a final true -up when the retirement/removal is complete.

Below, the Department summarizes the information provided by Xcel in compliance with these reporting requirements.

1. Minnesota Valley and Key City

The Company provided an update on removal costs for Minnesota Valley and Key City on page 10-11 of its Petition. Additionally, in its response to Information Request (IR) No. 3 from the Office of the Attorney General – Residential Utilities and Antitrust Division (OAG), the Company reported that no dismantling activities had occurred at either facility since the dismantling study was prepared for the 2015 Depreciation Docket. In the same IR response, the Company stated that it believes that removal costs at the two facilities will not exceed the current cost estimates. Therefore, there were no changes to the associated depreciation reserves to report.

2. Black Dog Units 3 and 4

The Company provided an update on removal activity at Black Dog Units 3 and 4 on pages 9-10 of its Petition. Xcel stated that over the life of the two units, it collected \$30.9 million for general dismantling activities, and an additional \$33.2 million will be collected for coal yard remediation. The Company stated that total of \$64.1 million is consistent with its estimated total project costs, and that it continues to believe that its estimate is reasonable.

In addition, Xcel's Response to OAG IR No. 3, Attachment A, Table 1, indicates that it incurred \$10.2 million of removal costs at Black Dog during 2016. This amount would have been debited against the depreciation reserve for Black Dog Units 3 and 4, reducing the reserve.

E. REQUEST FOR APPROVAL OF AMORTIZATION RATE FOR REGULATORY ASSET

1. Xcel's Proposal

In addition to its request for approval of its proposed remaining lives and salvage rates, Xcel requested Commission approval of amortization rates for regulatory assets created pursuant to prior Commission Orders that required the Company to amortize its theoretical depreciation reserve surplus for its transmission, distribution and general (TD&G) assets.

As explained beginning on page 12 of the Company's Petition, based on the depreciation rates and parameters approved in Docket No. E,G002/D-12-858, the Company had a theoretical reserve surplus of \$311.1 million on a total company basis (\$261.2 million on a Minnesota jurisdictional basis) on its TD&G plant. In Docket No. E002/GR-12-961 (the 2012 Rate Case), the Commission required Xcel to amortize its theoretical reserve surplus over a period of 8 years, beginning January 1, 2013.

Per the Commission's Order, Xcel amortized 1/8th of its theoretical surplus during 2013. Then, in the Company's subsequent rate case, Docket No. E002/GR-13-868 (the 2013 Rate Case), the Commission required Xcel to amortize the remainder of the theoretical surplus over 3 years beginning January 1, 2014 using a declining pattern of 50 percent of the remaining surplus in 2014, 30 percent in 2015, and 20 percent in 2016. For Minnesota jurisdictional purposes, Xcel treated the amortization of its theoretical surplus as negative depreciation expense, directly affecting its accumulated depreciation balances. In its TD&G depreciation filing in Docket No. E,G002/D-17-581, Xcel stated that that the "amortization of the theoretical surplus from [the 2012 and 2013 Rate Cases] reduced depreciation expense and lowered the accumulated depreciation for regulatory reporting for the Minnesota retail jurisdiction by \$261.2 million for the years 2013 through 2016."

However, on page 14 of its Petition, Xcel explained that Federal Energy Regulatory Commission (FERC) Accounting rules do not allow a utility to reduce its annual depreciation expense to amortize a theoretical depreciation reserve surplus over a period other than the average remaining lives of the plant accounts affected. Because neither of the amortization periods approved in the 2012 and 2013 Rate Cases were set equal to the affected plant accounts' remaining lives, Xcel could not recognize the amortization of its surplus directly in its accumulated depreciation accounts in its FERC financial reporting.

Xcel explained that when amortizations occur over a period other than the average remaining life, FERC requires recognition of the negative depreciation expense as a negative amortization expense that in turn sets up a regulatory asset. Therefore, since January 1, 2013, in its FERC financial reporting, Xcel has recorded the negative expense associated with the amortization of its theoretical reserve surplus in FERC Account 407.4 Regulatory Credits (rather than FERC Account 403 Depreciation) and debited FERC Account 182.3 Other Regulatory Assets. Thus, Xcel's presentation of its Company financials in its FERC financial reporting differs from its presentation of its financials in its Minnesota jurisdictional regulatory reporting.

As of December 31, 2016, Xcel had fully amortized the theoretical surplus as ordered in the 2012 and 2013 Rate Cases, and now has a regulatory asset of \$261.2 million on its balance sheet in its FERC financial reporting. According to the Company, the FERC will not allow the Company to begin unwinding (amortizing and expensing) this asset unless and until the Commission approves amortization rates for the asset. Therefore, the Company requested approval of the amortization rates shown in Attachment G, page 1, to its Petition, to unwind this regulatory asset.

On page 15 of its Petition, the Company stated that the net effect of the amortization of this regulatory asset on its revenue requirement will be zero.

Xcel made this same proposal in its most recent general rate case, Docket No. E002/GR-15-826. However, neither the Settlement nor the Commission's final Order addressed this proposal.

Based on the Company's explanation, it is the Department's understanding that if the Commission approves Xcel's proposed amortization rates, the Company's accounting for depreciation expense and amortization expense will essentially be a three-step process. First, the Company will record depreciation expense using Commission-approved depreciation rates with the following journal entry:

Dr: FERC Acct. 403 Depreciation Expense	\$XXX,XXX
Cr: FERC Acct. 108 Accumulated Depreciation	\$XXX,XXX

Second, the Company will record the amortization expense associated with its theoretical surplus using its proposed amortization rates in Attachment G to its Petition:

Dr: FERC Acct. 407.3 Regulatory Debit	\$YYY,YYY
Cr: FERC Acct. 182.3 Other Regulatory Assets	\$YYY,YYY

Third, in order to keep total depreciation and amortization expense equal to the amount of depreciation expense calculated using Commission-approved depreciation rates, Xcel will record a negative adjustment to depreciation expense exactly equal to the amortization expense recorded in FERC Account 407.3 shown in the second journal entry above:

Dr: FERC Acct. 108 Accumulated Depreciation	\$YYY,YYY
Cr: FERC Acct. 403 Depreciation Expense	\$YYY,YYY

As shown in Attachment G to the Company's Petition, the \$261.2 million regulatory asset is allocated across its electric TD&G and common plant accounts, and will be amortized at the account level. The remaining lives shown in Attachment G over which Xcel proposes to amortize the regulatory asset were first calculated in Docket No. E,G002/D-12-858.¹⁵ In that Docket, Xcel initially proposed to switch from an average service life depreciation method to a remaining life method, and thus developed remaining life estimates for all of its plant accounts.¹⁶ Xcel has adjusted the remaining lives calculated in that Docket for the passage of 5 years, and for any account with a remaining life of less than 5 years as of the beginning of 2017, Xcel has proposed to use a remaining life of 5 years.

While remaining lives for specific plant accounts change based on plant additions, retirements, changes in estimates, etc., if approved, the proposed amortization rates will not be recalculated annually using updated remaining lives. Rather, the amortization rates will remain fixed until the regulatory asset is fully amortized.

2. Department Analysis

In a related filing with the Public Service Commission of Wisconsin,¹⁷ Xcel identified a 2011 FERC Order in a Florida Power Corporation (FPC) case that also pertained to the amortization of a theoretical reserve surplus over a time period other than the remaining lives of the affected plant accounts.¹⁸ After reviewing that FPC case, the Department agrees that for purposes of FERC reporting, Xcel was required to account for the amortization of this theoretical reserve surplus as a regulatory asset, rather than as a direct adjustment to depreciation expense and accumulated depreciation. FPC, however, has not yet begun to unwind its regulatory asset, and the Department was unable to find any other similar FERC cases.¹⁹

The Department concludes that Xcel's accounting treatment of the theoretical reserve surplus amortization appropriately implements the Commission's Orders in the 2012 and 2013 Rate Cases in a manner consistent with FERC's accounting rules, and that the Company's request for approval of its proposed amortization rates is reasonable. However, the Department notes that its recommendation is based in part on Xcel's explanation that the proposed treatment will have no effect on the Company's revenue requirement. If approved by the Commission, the

¹⁵ See Department Attachment No. 4.

¹⁶ Xcel subsequently withdrew its request to switch to a remaining life method.

¹⁷ See Northern States Power Company Wisconsin's January 20, 2014 Request for Deferred Accounting Treatment for Certain Reductions in Interchange Agreement Billings From Northern States Power Company, a Minnesota corporation in Docket No. 4220-GF-124.

¹⁸ *Florida Power Corp.*, 136 FERC ¶ 61,033 (2011), *reh'g denied* 137 FERC ¶ 61,150 (2011).

¹⁹ See Department Attachment No 5.

Company should be prepared to demonstrate in future rate case and rider proceedings that there are no cost impacts to ratepayers of Xcel's accounting treatment of its theoretical reserve surplus amortization

IV. CONCLUSION AND RECOMMENDATIONS

After review, the Department concludes that, with the exception of the proposed remaining life for Angus Anson Units 2 and 3, Xcel's Petition is reasonable and recommends that the Commission approve it. For Angus Anson Units 2 and 3, the Department recommends that the Commission approve a remaining life of 9 years, reflecting a 1-year passage-of-time adjustment. The Department's recommendations will result in an increase in total company depreciation expense of \$0.9 million, or 0.27 percent (the Company's proposal would result in an increase of \$0.1 million, or 0.04 percent).

The Department recommends that the Commission:

- approve Xcel's proposed depreciation lives and salvage rates for its electric production, gas production, and gas storage facilities, except for the proposed remaining life for Angus Anson Units 2 and 3;
- approve a remaining life of 9 years for Angus Anson Units 2 and 3;
- require Xcel to file its next remaining life depreciation petition by February 19, 2018;
- require Xcel to continue to provide in future depreciation filings a comparison of depreciation remaining lives and resource planning lives for electric production with an explanation of any differences;
- require Xcel to continue to provide in future depreciation filings a historical comparison of changes in remaining lives and net salvage rates; and,
- require Xcel to continue to provide in future depreciation filings updates on removal costs for the Minnesota Valley Plant, Key City Plant and Black Dog Units 3 and 4, including the impact on depreciation reserves, and a final true-up when the retirement/removal is completed.

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 Public Document

Xcel Energy

Docket No.: E,G002/D-17-147

Response To: MN Department of Commerce Information Request No. 5

Requestor: Craig Addonizio

Date Received: April 26, 2017

Question:

On page 6 of its Petition, Xcel stated that it plans to invest \$25.5 million in Angus Anson Units 2 and 3 between 2019 and 2022.

- a. Please explain whether these investments are necessary in order for Angus Anson Units 2 and 3 to sustain operations through 2030 (as currently assumed in their remaining life).
- b. Please explain whether Xcel currently expects to need the capacity provided by these units during the period 2031-2034.
- c. Please briefly describe the process Xcel used to determine whether to make the referenced capital investments in the units, rather than retire and replace them with a new resource.

Response:

- a. The projected additions are needed in order to ensure continued safe operations through 2030. The additions primarily relate to a capital overhaul which is required by the original equipment manufacturer Siemens on a unit start schedule. An overhaul is needed after 3,200 starts for each unit. Unit 3 will reach 3,200 starts at the end of 2019 and Unit 2 will reach 3,200 starts at the end of 2021.
- b. The Company will operate and maintain these units to provide safe, reliable energy with the current book life/operational life as our current sight line. As we progress closer to those dates we will assess and reassess our position of those units.

- c. The Company conducts economic studies called Portfolio Rationalization Assessments (PRAs). These PRAs are an asset management tool developed and used by Energy Supply that operate as an instructive screening mechanism for identifying future decisions the Company may be required to make to ensure that its mix of generation resources are reliable and cost-effective. The PRAs consider and incorporate capital and operation and maintenance forecasts, equipment condition assessments, safety assessments, applicable regulations, competitive market pricing, loads and resources balances, and transmission reliability studies that can be useful in helping to determine strategies, such as investment strategies, remaining life, divestiture, AND retirement.

Preparer: James Zyduck/Brian Smit
Title: General Manager, Power Generation/Manager Asset Analytics and Reg
Department: Energy Supply MN Plants/Asset Management
Telephone: 612-330-7739/303-571-2730
Date: May 8, 2017

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Xcel Energy

Docket No.: E,G002/D-17-147

Response To: MN Department of Commerce Information Request No. 3

Requestor: Craig Addonizio

Date Received: April 26, 2017

Question:

On page 7 of its Petition, Xcel stated that during 2016, it determined that substantial capital investments would be required for Blue Lake Units 1-4 to sustain their operations through the end of their currently approved remaining life of 7 years. Please describe the required capital investments and provide an estimate of their total costs.

Response:

There are three main components that would need to be reworked in order to operate Blue Lake Units 1 through 4 until the end of 2024. It is estimated that approximately \$9.6 million would need to be spent to overhaul the combustion turbine, another \$2.0 million in capital work on the generator, and \$0.3 million in transformer work. In addition to these specific projects, it is expected that an additional \$0.6 million in smaller capital projects would be needed to maintain continued operations of the plant through 2024.

Preparer: James Kuhn
Title: Plant Director
Department: ES Director RDF
Telephone: 320-255-8629
Date: May 8, 2017

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 Public Document

Xcel Energy

Docket No.: E,G002/D-17-147

Response To: MN Department of Commerce Information Request No. 4

Requestor: Craig Addonizio

Date Received: April 26, 2017

Question:

On page 7 of its Petition, Xcel stated that during 2016, it determined that substantial capital investments would be required for Granite City to sustain its operations through the end of its currently approved remaining life of 7 years. Please describe the required capital investments and provide an estimate of their total costs.

Response:

The Company estimates that approximately \$8.0 million in capital additions would be needed to maintain the continued operation of the Granite City plant through the end of its previously approved remaining life. This includes approximately \$3.1 million for a Unit 1 generator stator rewind, \$2.3 million for a Unit 4 generator stator rewind, \$1.0 million each for rotor rewinds on Units 2 and 3, \$0.2 million in control replacements, \$0.2 million for generator protective relays, and \$0.2 million of smaller capital additions.

Preparer: James Kuhn
Title: Plant Director
Department: ES Director RDF
Telephone: 320-255-8629
Date: May 8, 2017

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Xcel Energy

Docket No.: E,G002/D-17-147

Response To: MN Department of Commerce Information Request No. 7

Requestor: Craig Addonizio

Date Received: April 26, 2017

Question:

Reference: Attachment G

- a. Please explain how the remaining lives shown in Attachment G were derived.
- b. Going forward, does Xcel plan to recalculate each account's remaining life each year based on additions and retirements, or "freeze" the remaining life approved in this docket and make only passage-of-time adjustments in future years?

Response:

- a. The remaining lives were first provided in the 2012 Transmission, Distribution, and General Depreciation filing, Docket No. E,G002/D-12-858. In Schedule C, Comparison of Present Reserve to Theoretical Reserve (pages 4, 5, and 11), the average remaining lives for the electric and common utilities were presented as of January 1, 2012. The select pages from Schedule C have been attached for reference in Attachment A. While the entire Schedule C includes electric, gas, and common utility assets, only electric and common assets are affected by this accounting. As stated in Lisa Perkett's Direct Testimony in Docket No. E002/GR-15-826, Vol. 2E, p. 46-47, for most asset accounts, the amortization rates were calculated to amortize the regulatory assets over the average remaining life of that asset account as of the beginning of 2017. Exceptions to this are proposed for assets with average remaining lives of less than five years as of the beginning of 2017. For those assets, the Company proposes to amortize the regulatory asset over five years. The difference in average remaining lives between the depreciation filing and the 2015 rate case is the subtraction of five years passage-of-time.

Please see Attachment B for details.

- b. Going forward, the average remaining lives approved in this docket will be “frozen” and Xcel Energy will make passage-of-time adjustments only in future years.

Preparer: Lisa Perkett
Title: Principal Financial Consultant
Department: Capital Asset Accounting
Telephone: (612) 330-6950
Date: May 8, 2017

Northern States Power Company
 Comparison of Present Reserve to Theoretical Reserve

Electric Utility

FERC Account	Account Description	Plant Balance 1/1/2012 (Note)	(a)	(b)	(c)	(d)	(e)	(f)	(g) = (b) - (f)	(h) = (g)/(d)	(i)
			Depreciation Reserve 1/1/2012	Estimated Net Salvage Rate (%)	Average Remaining Life	Average Service Life	Theoretical Reserve	Theoretical Reserve Difference	Actual to Theoretical Reserve Difference	Divided by Average Remaining Life	Annual Accrual (ARL less ASL)
In tangible											
303	Computer Software - 5 year	15,217,558	7,367,597	0	2.72	5	6,950,553	417,044	(153,535)	(153,535)	(153,536)
	Total Intangible	15,217,558	7,367,597				6,950,553	417,044	(153,535)	(153,535)	(153,536)
Transmission											
352	Structures & Improvements	46,878,153	15,348,271	0	52.67	68	10,569,494	4,778,777	(90,734)	(90,734)	(90,734)
355	Station Equipment	856,268,539	277,554,258	-10	44.73	56	189,587,203	87,967,055	(1,966,704)	(1,966,704)	(1,966,704)
354	Towers & Fixtures	113,933,667	91,740,102	-35	41.30	70	63,064,084	28,676,018	(694,348)	(694,348)	(694,348)
355	Poles & Fixtures	557,866,574	140,344,077	-35	54.12	62	95,699,052	44,645,025	(824,901)	(824,901)	(824,901)
356	Overhead Conductor & Devices	303,746,575	99,071,932	-30	52.23	63	67,484,864	31,587,068	(604,733)	(604,733)	(604,733)
357	Underground Conduit	12,146,888	3,742,982	0	57.58	73	2,566,531	1,176,452	(20,433)	(20,433)	(20,433)
358	Underground Conductor & Devices	20,992,067	5,132,759	0	45.84	55	3,496,274	1,636,485	(35,700)	(35,700)	(35,700)
	Total Transmission	1,911,832,463	632,934,381				432,467,501	200,466,880	(4,237,553)	(4,237,553)	(4,237,553)
Distribution - Minnesota Only											
361	Structures & Improvements	33,530,827	15,353,500	-30	40.91	60	13,866,716	1,486,783	(36,340)	(36,340)	(36,340)
362	Station Equipment	432,935,359	156,541,124	-20	41.94	55	123,318,699	13,222,426	(315,235)	(315,235)	(315,235)
364	Poles, Towers & Fixtures	276,983,831	165,343,920	-100	32.14	44	149,332,277	16,011,643	(498,200)	(498,200)	(498,200)
365	Overhead Conductor & Devices	305,257,633	87,064,868	-20	30.63	39	78,633,644	8,431,224	(275,278)	(275,278)	(275,278)
366	Underground Conduit	195,483,167	61,565,297	-10	38.55	52	55,603,411	5,961,886	(154,638)	(154,638)	(154,638)
367	Underground Conductor & Devices	796,388,991	253,046,916	0	32.09	45	228,542,255	24,504,662	(763,713)	(763,713)	(763,713)
368	Line Transformers	327,056,337	162,954,214	-5	18.76	32	142,112,762	20,841,453	(1,111,102)	(1,111,102)	(1,111,102)
368	Line Capacitors	18,050,013	12,151,454	-10	10.76	25	11,300,240	851,214	(79,140)	(79,140)	(79,140)
369	Services - Overhead	67,976,679	48,822,436	-70	24.74	40	44,094,549	4,727,887	(191,125)	(191,125)	(191,125)
369	Services - Underground	166,419,623	76,994,920	-5	24.68	41	69,538,868	7,456,052	(302,062)	(302,062)	(302,062)
370	Meters	91,277,466	61,046,782	0	5.65	15	56,875,549	4,171,233	(737,827)	(737,827)	(737,827)
370	Meters - Old	1,680,974	1,680,974	0	0.00	20	1,680,974	-	-	-	-
373	Street Light & Signal Systems	49,608,946	17,512,581	-35	22.15	29	15,816,691	1,695,891	(76,560)	(76,560)	(76,560)
	Total Distribution	2,762,631,816	1,100,078,987				990,716,634	109,362,353	(4,541,220)	(4,541,220)	(4,541,220)

Northern States Power Company
 Comparison of Present Reserve to Theoretical Reserve

Electric Utility

FERC Account	Account Description	Plant Balance 1/1/2012 (a)	(None)	Depreciation Reserve 1/1/2012 (b)	Estimated Net Salvage Rate (%) (c)	Average Remaining Life (d)	Average Service Life (e)	Theoretical Reserve (f)	Actual to Theoretical Reserve Difference (g) = (b) - (f)	Difference Divided by Average Remaining Life (h) = (g) / (d)	Annual Accrual (ARL less ASL) (i)
General											
390	Structures & Improvements	59,179,857		26,921,569	-20	37.84	57	23,865,074	3,056,495	(80,764)	(80,764)
391	Office Furniture & Equipment	22,857,009	(1)	8,778,503	0	12.75	20	8,281,594	496,909	(38,962)	(38,962)
391	Network Equipment	4,884,082	(1)	2,764,304	0	1.86	4	2,607,830	156,474	(83,935)	(83,935)
392	Transportation Equipment - Automobiles	390,265	(1)	94,451	0	7.72	10	89,105	5,346	(693)	(693)
392	Transportation Equipment - Light Trucks	21,025,679	(1)	6,579,723	0	8.46	12	6,207,276	372,447	(44,038)	(44,038)
392	Transportation Equipment - Trailers	7,211,534	(1)	1,163,591	0	12.72	15	1,097,725	65,866	(5,179)	(5,179)
392	Transportation Equipment - Heavy Trucks	41,657,907	(1)	10,000,297	0	10.83	14	9,434,228	566,069	(52,271)	(52,271)
393	Stores Equipment	1,230,683	(1)	455,176	0	13.02	20	429,411	25,765	(1,979)	(1,979)
394	Tools, Shop & Garage Equipment	51,145,841	(1)	18,371,395	0	9.92	15	17,331,479	1,039,916	(104,862)	(104,862)
395	Laboratory Equipment	3,622,186	(1)	1,974,806	0	4.86	10	1,863,022	111,784	(23,017)	(23,017)
396	Power Operated Equipment	20,725,068	(1)	3,968,021	0	9.83	12	3,743,411	224,610	(22,844)	(22,844)
397	Communication Equipment	12,184,390	(1)	4,479,135	0	5.88	9	4,225,592	253,543	(43,129)	(43,129)
397	Communication Equipment - Two Way	232,557	(1)	93,346	0	5.59	9	88,062	5,284	(945)	(945)
397	Communication Equipment - EMS	4,962,953	(1)	1,448,553	0	10.87	15	1,566,558	81,996	(7,543)	(7,543)
397	Communication Equipment - AMR	9,748,526	(1)	3,226,532	0	10.32	15	3,043,893	182,639	(17,704)	(17,704)
398	Miscellaneous Equipment	2,783,945	(1)	1,452,786	0	7.62	15	1,370,550	82,236	(10,799)	(10,799)
Total General		263,842,485		91,772,188				85,044,810	6,727,378	(538,663)	(538,663)
Total Electric Utility		4,953,524,321		1,832,153,153				1,515,179,498	316,973,655	(9,470,972)	(9,470,972)

(1): Plant Balance for vintage group (amortized) assets is for the vintages as of 1/1/2012 that are not fully depreciated.
 (2): This account is fully depreciated at in 2012

Northern States Power Company
 Comparison of Present Reserve to Theoretical Reserve
 Common Utility

FERC Account	Account Description	(a)	(b)	(c)	(d)	(e)	(f)	(g) = (b) - (f)	(h) = (g)/(d)	(i)
		Plant Balance 1/1/2012 (Note)	Depreciation Reserve 1/1/2012	Estimated Net Salvage Rate (%)	Average Remaining Life	Average Service Life	Theoretical Reserve	Theoretical Reserve Difference	Difference Divided by Average Remaining Life	Annual Accrual (ARL less ASL)
	Intangible									
303	Computer Software - 3 year	-	-	0	0.00	3	-	-	-	-
303	Computer Software - 5 year	63,386,881	24,666,948	0	2.94	5	26,062,241	(1,395,293)	473,914	473,914
303	Computer Software - 7 year	8,328,954	7,734,029	0	0.50	7	7,734,029	-	-	-
303	Computer Software - 10 year	284,215	174,848	0	3.50	10	184,738	(9,890)	2,826	2,826
	Total Intangible	72,000,048	32,575,825				33,981,008	(1,405,183)	476,739	476,739
	General									
390	Structures & Improvements	115,747,921	24,851,017	-20	44.19	55	27,294,114	(2,443,097)	55,283	55,283
390	Structures & Improvements - Leasehold Improvements	1,163,412	476,674	0	5.50	10	523,535	(46,862)	8,520	8,520
391	Office Furniture & Equipment	23,397,579	12,026,756	0	9.14	20	12,707,053	(680,297)	74,446	74,446
391	Network Equipment	27,288,817	10,822,562	0	2.32	4	11,494,532	(612,170)	263,421	263,421
392	Transportation Equipment - Automobiles	319,097	93,990	0	6.89	10	99,307	(5,317)	772	772
392	Transportation Equipment - Light Trucks	4,350,598	2,082,324	0	5.93	12	2,200,111	(117,787)	19,858	19,858
392	Transportation Equipment - Trailers	1,125,686	322,385	0	10.46	15	340,621	(18,236)	1,743	1,743
392	Transportation Equipment - Heavy Trucks	4,425,984	1,633,134	0	8.54	14	1,725,513	(92,379)	10,815	10,815
393	Stores Equipment	9,136	801	0	18.15	20	846	(45)	2	2
394	Tools, Shop & Garage Equipment	2,173,877	668,007	0	10.13	15	705,793	(37,786)	3,730	3,730
395	Laboratory Equipment	36,686	26,042	0	2.50	10	27,515	(1,473)	589	589
396	Power Operated Equipment	707,031	218,544	0	8.08	12	230,906	(12,362)	1,530	1,530
397	Communication Equipment	1,367,560	738,108	0	3.87	9	779,859	(41,751)	10,795	10,795
397	Communication Equipment - Two Way	3,738,356	2,172,302	0	3.47	9	2,295,179	(122,877)	35,366	35,366
398	Miscellaneous Equipment	811,679	460,285	0	6.01	15	486,322	(26,037)	4,330	4,330
	Total General	186,663,417	56,592,731				60,851,207	(4,258,476)	491,201	491,201
	Total Common Utility	258,663,465	89,168,556				94,832,215	(5,663,659)	967,940	967,940

(1): Plant Balance as of 1/1/2012 has been adjusted for known retirements that occurred in the first six months of 2012.

(2): Plant Balance for vintage group (amortized) assets is for the vintages as of 1/1/2012 that are not fully depreciated.

FERC Account	Description	Remaining Life 1/1/2017	Remaining Life 1/1/2012	Calculated Remaining Life 1/1/2017 *
Electric Intangible				
303	Computer Software - 5 year	5.00	2.72	0
Transmission				
352	Structures & Improvements	47.67	52.67	47.67
353	Station Equipment	39.73	44.73	39.73
354	Towers & Fixtures	36.30	41.30	36.30
355	Poles & Fixtures	49.12	54.12	49.12
356	Overhead Conductor & Devices	47.23	52.23	47.23
357	Underground Conduit	52.58	57.58	52.58
358	Underground Conductor & Devices	40.84	45.84	40.84
Distribution - Minnesota Only				
361	Structures & Improvements	35.91	40.91	35.91
362	Station Equipment	36.94	41.94	36.94
364	Poles, Towers & Fixtures	27.14	32.14	27.14
365	Overhead Conductor & Devices	25.63	30.63	25.63
366	Underground Conduit	33.55	38.55	33.55
367	Underground Conductor & Devices	27.09	32.09	27.09
368	Line Transformers	13.76	18.76	13.76
368	Line Capacitors	5.76	10.76	5.76
369	Services - Overhead	19.74	24.74	19.74
369	Services - Underground	19.68	24.68	19.68
370	Meters	5.00	5.65	0.65
373	Street Light & Signal Systems	17.15	22.15	17.15
Electric General				
390	Structures & Improvements	32.84	37.84	32.84
391	Office Furniture & Equipment	7.75	12.75	7.75
391	Network Equipment	5.00	1.86	0.00
392	Transportation Equipment - Automobiles	5.00	7.72	2.72
392	Transportation Equipment - Light Trucks	5.00	8.46	3.46
392	Transportation Equipment - Trailers	7.72	12.72	7.72
392	Transportation Equipment - Heavy Trucks	5.83	10.83	5.83
393	Stores Equipment	8.02	13.02	8.02
394	Tools, Shop & Garage Equipment	5.00	9.92	4.92
395	Laboratory Equipment	5.00	4.86	0.00
396	Power Operated Equipment	5.00	9.83	4.83
397	Communication Equipment	5.00	5.88	0.88
398	Miscellaneous Equipment	5.00	7.62	2.62
Common Intangible				
303	Computer Software - 5 year	5.00	2.94	0.00
303	Computer Software - 10 year	5.00	3.5	0
Common General				
390	Structures & Improvements	39.19	44.19	39.19
390	Structures & Improvements - Leasehold Improvements	5.00	5.50	0.50
391	Office Furniture & Equipment	5.00	9.14	4.14
391	Network Equipment	5.00	2.32	0.00
392	Transportation Equipment - Automobiles	5.00	6.89	1.89
392	Transportation Equipment - Light Trucks	5.00	5.93	0.93
392	Transportation Equipment - Trailers	5.46	10.46	5.46
392	Transportation Equipment - Heavy Trucks	5.00	8.54	3.54
393	Stores Equipment	13.15	18.15	13.15
394	Tools, Shop & Garage Equipment	5.13	10.13	5.13
395	Laboratory Equipment	5.00	2.50	0.00
396	Power Operated Equipment	5.00	8.08	3.08
397	Communication Equipment	5.00	3.87	0.00
398	Miscellaneous Equipment	5.00	6.01	1.01

* Calculated remaining life is determined by taking the 1/1/2012 remaining life and subtracting 5 years. Where the calculation would have resulted in a negative number, zero was used.

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Xcel Energy

Docket No.: E,G002/D-17-147

Response To: MN Department of Commerce Information Request No. 9

Requestor: Craig Addonizio

Date Received: July 10, 2017

Question:

Regarding Xcel's request for approval of amortization periods for the regulatory asset it created related to its theoretical depreciation reserve for its TD&G plant, Xcel has pointed to the a Florida utility that was required to do something similar. I found the order from the Florida PSC that required Florida Power Corporation (FPC) to amortize its theoretical surplus, and I've found the FERC dockets in which FPC was required to set up a regulatory asset rather than directly altering its depreciation reserves. However, I cannot find anything related to the unwinding of the regulatory asset.

If you know, could you please tell me:

- (1) the Florida PSC docket number in which the FL PSC approved an amortization period for the regulatory asset, and
- (2) the FERC docket or dockets in which the amortization of the regulatory asset begins?

Response:

In order to answer your question, we called Florida Power Corporation and asked where they were with their filings to flow-back their regulatory asset. They informed us that they have not made a filing with either the State of Florida or the FERC at this date. However, they are preparing a depreciation filing to be submitted to the FERC and they will include the flow-back of the regulatory asset in that filing.

Preparer: Lisa Perkett
Title: Principal Financial Consultant
Department: Capital Asset Accounting
Telephone: (612) 330-6950
Date: July 17, 2017

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-17-147

Dated this 18th day of August 2017

/s/Sharon Ferguson

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