

March 25, 2015

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

RE: **Clarification on Related Issues, in the Matter of the Application by Northern States Power Company for Authority to Increase Rates for Electric Service in Minnesota.**
Docket No. E002/GR-13-868

Dear Mr. Wolf:

On Thursday, March 19, 2015, beginning at hour 4:46 in the counter for the webcast, there was discussion before the Minnesota Public Utilities Commission (Commission) about several topics that are related, but somewhat different:

1. in-service dates and substitution of newly proposed capital projects for initially proposed capital projects in the 2014 test year and 2015 step year;
2. the true-up in the multi-year rate case for the 2014 test year; and
3. the true-up in the multi-year rate case for the 2015 step year regarding capital costs and the Babcock and Wilcox Nuclear lawsuit.

The discussion before the Commission about these interrelated issues was less than clear, in part because the issues were addressed by different witnesses and in part because similar terms have different meanings when applied to different issues, resulting in unintentional miscommunication of issues by parties, including the Minnesota Department of Commerce (Department) and Northern States Power d/b/a Xcel Energy (Xcel).

The Department provides this letter to provide the basis for our recommended decision options filed on Friday, March 20, 2015 and to identify the relevant places in the record for each issue.

A. *IN-SERVICE DATES FOR CAPITAL PROJECTS IN THE 2014 TEST YEAR AND 2015 STEP YEAR*

The Department identified our recommendation on this issue as:

VII. K. Changes to In-Service Dates for Capital Projects (2014 and 2015 Step)

2. Deny inclusion of all 2014 Test Year and 2015 Step Year replacement projects.

In making this recommendation, the Department notes that, for 2014, as in all single-year rate cases, the Commission determines the representative amount of costs, to the extent that the Commission determines that the utility has met its burden of proof to show its proposed costs to be reasonable. For such determinations, the Department provides the kind of analysis conducted in this proceeding to assess whether Xcel's proposed level of 2014 test-year capital costs and 2015 step year capital costs are reasonable.

The Department and Xcel disagree on the amount of test-year costs for capital projects, due to changes in in-service dates, as discussed in Ms. Campbell's Surrebuttal testimony, pages 102-109.

This issue is identified in Xcel's October 7, 2014 Issues List, item 11, which the Department and all parties were allowed to help develop. In making this recommendation, the Department agrees with ALJ Findings 494-499, but continues to disagree with Findings 500-501, as identified in our proposed changes in Exceptions filed on January 20, 2015.

B. TRUE-UP FOR THE MULTI-YEAR-RATE CASE FOR THE 2014 TEST YEAR

While Xcel and the Department disagree as to whether Xcel met its burden of proof to show as reasonable the level of costs Xcel proposed for 2014 and 2015, these parties agree that Xcel does not need to show on a project-by-project basis for 2014 whether Xcel actually implemented the specifically proposed projects. Instead, Xcel would be allowed to recover 2014 test-year capital costs up to the level that the Commission approves in this proceeding. That approach is similar to the outcome of an ordinary rate case.

Xcel agreed to provide a refund to ratepayers in the unlikely event that Xcel's actual capital related revenue requirement is less in total in 2014 than the Commission authorizes for the 2014 test year. Such a refund would be based on Xcel's total actual capital revenue requirements compared to the Commission's authorized amount, but would not be done on a project-by-project basis.

This issue is identified in Xcel's October 7, 2014 Issues List, item 35, which stated that this resolution was reached in the evidentiary hearing. The resolution is spelled out in Ms. Heuer's opening statement, Hearing Exhibit 140.

C. TRUE-UP FOR THE MULTI-YEAR-RATE CASE FOR THE 2015 STEP YEAR REGARDING CAPITAL COSTS AND THE BABCOCK AND WILCOX NUCLEAR LAWSUIT

The Department and Xcel also agree that the true-up for capital costs in 2015 would be conducted on a project-by-project basis for those project costs included in the 2015 Step. In the event the total actual 2015 Step revenue requirement is lower than the total test year 2015 Step authorized by the Commission, Xcel will provide a refund to customers. As identified in Item 21 listed in Appendix A of the ALJ's Report, this issue was resolved as described by Item 36 in the October 7, 2014 List of Issues.

Similarly, the Department's recommended decision option filed on Friday, March 20, 2015 stated the following regarding the Nuclear Lawsuit:

VII. B. Disputed \$46 Million in Rate Base

8. Require that any costs included in rate base but not paid 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.

The Department is hopeful that this letter provides clarity on these issues. As always, the Department is available to answer any questions the Commission may have.

Sincerely,

/s/ KATE O'CONNELL
Manager

KO/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
Letter**

Docket No. E002/GR-13-868

Dated this 25th day of **March 2015**

/s/Sharon Ferguson

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