Minnesota Public Utilities Commission
Staff Briefing Papers

Meeting Date: May 1**,** 2014...*Agenda Item # **3**

Company:	Northern States Power Company d/b/a Xcel Energy
Docket No.	E,G-002/D-13-1158
	In the Matter of Northern States Power Company's Request for Approval of the Annual Review of Remaining Lives Depreciation for Electric and Gas Production and Gas Storage Facilities and Net Salvage Rates for 2013
Issue(s):	Should the Commission approve the proposed 2013 depreciation lives?
Staff:	Jerry Dasinger ....(651) 201-2235

Relevant Documents

Xcel Filing..October 1, 2013
Department Comments ....January 8, 2014
Xcel Reply Comments...February 3, 2014
Xcel Supplemental Reply Comments..February 5, 2014
Department Response Comments ....February 10, 2014

The attached materials are workpapers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless otherwise noted.

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April 24, 2014

Statement of the Issue

Should the Commission approve the proposed 2013 depreciation lives?

Background

On October 1, 2013, Xcel filed its 2103 Annual Review of Remaining Lives. This was initially filed as a supplement in Docket No. E,G-002/D-12-151.

On January 8, 2014, the Department filed comments recommending approval subject to the provision of additional information in reply comments.

On February 3, 2014, Xcel filed reply comments providing the information requested and confirming its agreement with two future filing requirements recommended by the Department.

On February 5, 2014, Xcel filed supplemental reply comments to provide clarification regarding the depreciation expense included in its 2013 test year electric rate case for Black Dog Unit 5.

On February 10, 2014, the Department filed response comments recommending approval of the 2013 Annual Review of Remaining Lives.

Party Positions

Xcel

Xcel stated it is requesting approval of depreciation lives and rates that are consistent with the Commission's September 3 electric rate case order. Specifically, this 2013 Supplement:

- Starts from its modified 2012 proposal, including the depreciation reserve reallocation related to the Minnesota Valley plant.
- Reflects one-year passage of time updates from 2012 to 2013.
- Includes the Granite City life extension. (While this was not included in the modified 2012 proposal, Xcel noted in a supplemental letter filed October 29, 2012 in docket 12-151 that it intended to propose the life extension in 2013, and it included this request in its rate case.)
- Reflects the Commission's rate case decisions related to Sherco 3, Black Dog remediation, and the Monticello LCM/EPU project.

According to the Company, the approved revenue requirement in the 2013 rate case (12-961) reflects this information.

This 2013 Supplement reflects a decrease in 2013 depreciation expense of $9,130,144 based on beginning of year balances for assets not presently included in rate riders. This decrease represents an increase of $4.0 million for changes in depreciable lives and a decrease of $13.1

million for adjustments made in the Commission's September 3 rate case Order for Sherco 3, Black Dog, and Monticello. Xcel requested that upon Commission approval, the new remaining lives and net salvage rates become effective January 1, 2013.

According to the Company, in its last electric rate case the Commission approved a revenue requirement that included the changes to remaining lives proposed in its modified 2012 proposal, along with several additional changes that affect the 2013 depreciation of its electric production facilities. This 2013 Review of Remaining Lives includes the changes to depreciation proposed in its modified 2012 proposal and the additional depreciation changes for production assets required by its 2013 rate case.

Passage of Time Adjustment

The Commission last certified the remaining lives effective January 1, 2011, in its September 8, 2011 Order in Docket No. E,G-002/D-11-144. To begin its analysis of 2013 lives, it made a two-year passage of time adjustment to the certified remaining lives of all facilities. Subtracting two years from the present certified remaining life results in the proposed remaining life as of January 1, 2013. Attachment B shows the Comparison of Present and Proposed Lives as it relates to depreciation expense.

Recommended Changes in Remaining Lives

Other Production Granite City

The remaining life for Granite City is 0 years as of January 1, 2013. Thus, property in service during 2012 is now fully depreciated. However, the plant is not being retired at this time, and a major upgrade to the operating control systems on Units 1 and 2 was placed in service in June 2013, at a total capitalized amount of $307,929. The prior control system was obsolete and no longer supported by the manufacturer. If the system had not been replaced, control cards may have continued to fail and extended outages may have occurred. To ensure the cost of the upgrades was not immediately expensed in 2013, Xcel proposed in its last electric rate case to assign a new six-year life to the Granite City plant to begin when these new assets went in service. This proposal is reflected in the approved 2013 rate case revenue requirement. Based on the in-service dates and capitalized value, this new project resulted in an increase in 2013 depreciation of $38,585.

Gas Storage Westcott Compressor Equipment

Presently all systems have a remaining life of five years, as of January 1, 2013, except for the vaporizing equipment. The vaporizing equipment currently has a remaining life of 15 years.

The Company is currently in the process of replacing the refrigerated compressor unit at the Wescott LNG Plant. As was discussed in its 2012 Remaining Lives filing, this project was initially expected to go in-service in the second quarter 2012. During commissioning of the new assets it experienced a failure of the lowboil system which damaged bearings and other components. This required extensive rework by the vendor in order to complete the project. It is now expected that this project will be completed in October 2013. The forecasted capitalized value of this replacement is approximately $18.3 million.

Due to the upgrade and replacement of this refrigerated compressor unit, the Company proposed an increase in the remaining life for the Compressor Equipment account, FERC Account 363.3. Currently this account has a remaining life of five years. Xcel requested to extend the remaining life to 20 years. Due to the size of the addition in comparison to the current plant balance of the account, it included the forecasted capitalized amount of the new compressor unit separately on Schedule B. The new addition will result in an increase in depreciation of approximately $186,813, assuming an in-service date of October 1, 2013. The change in remaining life produces a decrease to annual expense of approximately $21,737 for the current plant balance of the Compressor Equipment account. The total change in depreciation for 2013 is an increase of approximately $165,075.

Change in Net Salvage Rates

Demolition, Decommissioning, and Abatement at Minnesota Valley

Xcel stated that Minnesota Valley last burned coal in 2004, and the air permit was formally retired in 2009. The plant is no longer in operation and preliminary demolition work has begun. The demolition process on the plant is expected to continue until at least 2014. The plant is currently still being depreciated in order to collect the cost of decommissioning the plant.

Xcel used updated quotes to create the following new estimate for the demolition, decommissioning, and abatement of the entire facility:

	2011 Estimate
Asbestos abatement	$4,500,000
Demolition w/ scrap credit	3,670,852
Site work	160,000
Oversight and Administrative	2,544,301
Contingency	2,650,593
Escalation	2,650,593
Coal yard closure	1,875,000
Hazardous material abatement	880,000
Dam removal	2,411,375
Total	$19,344,851

The Company stated it has already performed the ash ponds closure at Minnesota Valley, as well as a portion of the asbestos abatement. The costs for these activities were approximately $2.6 million and $900,000 respectively. These costs are not included in the above estimate, as the estimate reflects the costs to complete the demolition, decommissioning, and abatement going forward.

Xcel requested an engineering consultant and three contractors to provide estimates for the onsite work (i.e., general dam removal, water control, demolition, sediment removal, and site restoration). Based upon the information received, the revised estimate for removal of the dam is approximately $2.4 million.

Using the current approved remaining life and net salvage rate for Minnesota Valley, the net book value is negative $4,942,844. To fully depreciate Minnesota Valley, the net book value must be a negative $19,344,851. We propose to fully depreciate Minnesota Valley by transferring $14,402,007 ($19,344,851 - $4,942,844) of reserve from all other operating steam plants to Minnesota Valley as of the beginning of 2013. (Pages 6 and 7 of Attachment B provides the detail of this reallocation.)

As a result of this reallocation, the Minnesota Valley plant will be fully depreciated, and total steam production depreciation will decrease by $803,593 for 2013. The decrease in depreciation expense for 2013 is a combination of Minnesota Valley steam plant depreciation expense decreasing by $1,983,867 (since it will be fully depreciated in 2013) and depreciation expense for all other steam production units increasing by $1,180,274 (since their respective depreciable basis will have increased as a result of the reallocation process).

Black Dog Net Salvage Percentage

The Company stated that in its 2010 Remaining Lives filing a net salvage rate of negative 18 percent was approved for Black Dog Units 3 and 4. This was based on an estimated final removal cost of $23.8 million for both units. This 2010 removal cost study did not include the cost to remove the coal pile and the ash ponds beneath the coal pile. After the 2010 study was completed, Xcel stated it entered into a Voluntary Investigation and Compliance (VIC) program with the State of Minnesota to remediate the land. The program requires the Company to fully remediate the land where the coal pile and ash ponds are located. Xcel estimated the inclusion of the remediation of the coal pile and the ash ponds would increase the removal costs of Units 3 and 4 by $33.2 million (after adjusting for a more reasonable split between steam and other production).

To account for the new removal cost estimates, in its last rate case (12-961) the Department and Company recommended and the Commission approved a 15 year amortization period, effective January 1, 2013, for the increased removal costs of $33.2 million.

In its 2013 electric rate case, the Company proposed adjustments to the net salvage rates for Black Dog Units 3, 4, and 5 to better reflect the estimated removal costs at each unit. In order to be consistent with the proposal approved in that case, Xcel proposed that the net salvage rate for Black Dog Units 3 and 4 be changed from a negative 18.0 percent to a negative 29.7 percent. In addition, the Company requested that the net salvage rate for Black Dog Unit 5 be changed from a negative 8.3 percent to a negative 1.7 percent. These changes in net salvage rate produce an increase to annual expense of $4.3 million for steam production and a decrease to annual expense of $482,000 for other production. The 15 year amortization of the $33.2 million increased removal costs produces an increase to annual expense of $2.2 million for steam production.

Sherco 3

The Company stated that at this time it does not believe the turbine failure changes the current approved remaining lives for the Sherco units, which the Commission in its last rate case ordered be suspended during the outage period.

At the time of the failure, there were several major projects that had been completed during the scheduled overhaul which were ready for service. These projects have a value of approximately $24.3 million. These projects were ready for service at the time of the failure, and their in-service date is the same as the date on which Sherco 3 returned to service, September 5, 2013. The costs for these projects were included in a Plant Held for Future Use account, but as of September 5, 2013, Xcel stated it transferred these projects from Plant Held for Future Use to Plant in Service, and they began depreciation. In the 2013 rate case the Commission ordered the depreciation expense for 2013 on all of Sherco Unit 3 be deferred until January 1, 2014. This results in $13.4 million of deferred depreciation expense for 2013.

Monticello

Xcel stated in its last rate case, the Commission ordered that the Company transfer 41.6% of the additional Monticello LCM/EPU project costs incurred since the 2010 rate case to Construction Work in Progress (CWIP) effective January 1, 2013. Accordingly, the Company transferred $34.8 million to CWIP from Plant in Service (derivation of the amount shown in Attachment K). This transfer results in a decrease to 2013 depreciation expense of $2.0 million.

Resource Plan

The Commission's September 8 Order in Docket No. E,G-002/D-11-144 requires the Company to "continue to provide in future depreciation studies an explanation and schedule of the differences between the depreciation remaining lives and IRP planning lives of electric production plants" Attachment F is a Resource Plan Comparison for its electric production plant facility that compares its proposed depreciation life on current investment, the resource plan capacity planning period, and the rationale for any differences between the depreciation life and the resource plan capacity planning.

Conclusion

Based on the information provided in this filing, Xcel Energy requested that the Commission approve a total decrease in depreciation expense of $9,130,144, which includes changes related to the reserve reallocation in steam production to fully depreciate Minnesota Valley. The following table summarizes the proposed change in depreciation expense by utility.

Utility	Original	Proposed	2013 Depreciation Expense Change
Electric Utility	$ 189,735,545	$ 180,440,326	$ (9,295,219)
Gas Utility	$ 1,112,629	$ 1,277,704	$ 165,075
Total	$ 190,848,174	$ 181,718,029	$ (9,130,144)

Xcel requested that all changes have an effective date of January 1, 2013 for assets included in base rates, and effective with the in-service date for assets included in Riders. The Company stated that approval of the changes for the electric utility would be consistent with the revenue requirement in its 2013 electric rate case.

Department

In its 2013 Supplemental Update, the Company requested two changes in remaining lives. First, the Company requested a change in the remaining life of the Granite City peaking plant, an electric production facility. Second, the Company requested a change in the remaining life of the Wescott gas storage plant.

Granite City Peaking Plant

The peaking plant is now fully depreciated. However, the Company decided additional investments in Granite City were necessary to continue operations until 2018. As a result, the Company completed and placed in-service a major upgrade to the operating control systems. In the 2012 rate case, the Company requested a new six-year life to the Granite City plant, which was approved by the Commission and included in the 2013 test year revenue requirement.

Based on the Department's review of the Company's 2012 rate case, the Company's August 6, 2012 Reply Comments in Docket No. E,G-002/D-12-151, and the Company's revised operational plans and capital additions as communicated in Xcel's October 26, 2012 supplemental information and confirmed in the Company's 2013 Supplemental Update, the Department stated it considers the Company's request of a remaining life of six years for the Granite City plant to be reasonable.

Wescott Compressor Equipment

The Department stated that due to the upgrade and replacement of the refrigerated compressor unit, the Company proposed to increase the remaining life from five years to 20 years for the Compressor Equipment in FERC Account 363.

Based on its review, the Department requested that the Company provide more information in reply comments about the cause of the failure of the lowboil system which damaged bearings and other components. Specifically, the Company should indicate:

- What caused the failure,
- Whether the failure was the fault of the vendor or the Company,

- What the added cost was associated with the failure and damage,
- Who is paying for the added costs, and
- Whether the additional costs are included in the $18.3 million total capitalized amount.

The Department stated it generally supports the increase in the remaining life from five to 20 years for the Compressor Equipment account, however, the associated depreciation expense impacts cannot be conclusively evaluated until further information specified above is provided.

Demolition, Decommissioning and Abatement at Minnesota Valley, Minnesota Falls Dam Removal and Reserve Reallocation for Minnesota Valley

As noted in the Department's August 17 response comments (12-151), the Company originally estimated that the costs of demolition, remediation and decommissioning the Minnesota Valley plant would be $21,034,000 (which did not include the dam removal costs then estimated at $4.1 million). Considering the costs recovered through the salvage rate of $8,135,823, this resulted in a deficit of $12,898,177.

In the Supplemental Update, the Company estimated the cost of removal as $19,344,851 (which does include the new estimated cost for dam removal of $2,411,375) less costs recovered through the salvage rate of $4,942,844, resulting in a deficit of $14,402,007. The Department noted that the changes in the salvage rate for the Minnesota Valley Steam Plant retirement and the associated Minnesota Falls Dam removal are related to refinements in the demolition, decommissioning, and abatement costs.

The Department stated it considers the Company's estimated removal costs for the Minnesota Valley Steam Plant and Minnesota Falls Dam Removal of $19,344,851 to be reasonable based on its limited review, but subject to review in Xcel's current rate case.

Black Dog Net Salvage Percentage

Black Dog Units 2, 3, and 4 have current net salvage rates of negative 18 percent and the Company proposed to change these net salvage rates to negative 29.7 percent. The Department noted that application of the negative 29.7 percent net salvage rates results in $33.4 million in estimated recovery, which is very close to the $33.2 million cost of removal approved in the rate case. Since these removal costs are trued-up to actual costs, the Department stated it considers the Company's proposed negative salvage rate of 29.7 percent for Black Dog units 2, 3, and 4 to be reasonable. However, the Company did not provide support for its proposal to change Black Dog Unit 5's net salvage rate from negative 8.3 percent to negative 1.7 percent. It does not appear that the Black Dog 5 cost of removal was discussed in Xcel 2013 test year rate case. As a result, the Department requested that the Company provide support for its proposed change in the net salvage rate for Black Dog Unit 5 from negative 8.3 percent to 1.7 percent in its reply comments.

Sherco 3 and Monticello

The Department noted that the depreciation changes related to the Sherco 3 outage and Monticello LCM/EPU projects relate to the Commission's decisions made in Xcel's electric 2013 test year rate case in Docket No. E-002/GR-12-961. Therefore, it is the Department's understanding, that the Company's proposed accounting is simply reflecting that the 2013 depreciation expense is not being recorded for Sherco 3 and Monticello in 2013, but instead deferred to 2014.

Deferral of Sherco 3 Depreciation Expense

The Department stated that based on its review, it generally agrees with the Company's summary on Sherco 3 accounting for the projects held for future use and the deferral of the 2013 depreciation expense.

The Department stated that the Commission's September 3, 2013 rate case order in Docket No. E-002/GR-12-961 indicates that Xcel will be allowed to defer the 2013 depreciation expense for Sherco 3 into its next rate case. The Commission also accepted the Company's 21-year remaining life as a placeholder, however, because of significant repair work done to Sherco 3, the Company was required to have an engineer evaluate the remaining life of the plant for the purposes of Xcel's next rate case. The Department argued that deferral of 2013 depreciation expense for Sherco 3 into the Company's current 2014 and 2015 test year rate case is simply an opportunity for the Company to request recovery of the 2013 depreciation expense for Sherco 3 and is not a guarantee of rate recovery. The Department stated it will be reviewing the cost recovery of the 2013 depreciation expense for Sherco 3 and the engineering study for Sherco 3 in Xcel's current rate case.

Monticello Depreciation

The Department stated that based on its review of the Company's summary on Monticello and the Commission's September 3, 2013 rate case order, the Department agrees with the Company's accounting but notes that this depreciation petition does not support guaranteed rate recovery; final rate recovery for Monticello will be determined in the Company's current rate case.

Resource Plan

The Department stated it did a limited review of the Company's "Resource Plan Comparison," and noted that the Company adequately explained the reasons for differences between electric production plant resource planning lives and depreciation remaining lives. As a result, the Department recommended the Commission accept the Company's "Resource Plan Comparison" and require the Company to continue to provide this comparison in future electric production plant depreciation filings.

Recommendations

The Department recommended that the Commission approve Xcel's proposed service lives, salvage rates, and resulting depreciation rate effective January 1, 2013 for plants in service as revised in its October 1, 2013 Supplemental Update, subject to the provision of further information.

Regarding the Wescott facility, the Department generally supports the increase in the remaining life from five to 20 years for the Compressor Equipment account, however, the Department concluded that the associated depreciation expense impacts cannot be conclusively evaluated until further information is provided.

Regarding the Minnesota Valley Steam Plant and associated Minnesota Dam removal, the Department requested that the Company clarify the cause of the change in costs recovered through the salvage rate from $8,135,823 in the 2012 depreciation study to the $4,942,844 in the Supplemental Update. Additionally, the Company should provide an update for the cost of removal incurred by the Company through year end 2013.

The Department recommended that the Company provide in reply comments support for the change for the net salvage rate for Black Dog Unit 5 from negative 8.3 percent to 1.7 percent.

In addition, the Department recommended that the Commission require the Company to file its 2014 Remaining Lives Study no later than the end of February 2014 to ensure consideration in the Company's current pending rate case.

Finally, the Department recommended the Commission accept the Company's "Resource Plan Comparison" and require the Company to continue to provide the "Resource Plan Comparison" in future electric production plant depreciation filings.

Xcel Reply

Wescott Gas Storage Plant

Xcel clarified that it was not the low boil system that was damaged instead it was the C301 feed gas booster compressor, which boosts the pressure of incoming natural gas to be liquefied. The damage occurred in November 2012 during the startup of the plant after installation of the new compressor equipment. Because the manufacturer was supervising the startup, the cost of the repair work was partially covered by the manufacturer. The Company incurred approximately $62,000 in costs related to the repair of damaged equipment. These costs were considered an operating expense at the time they were incurred.

Minnesota Valley Removal Costs

Xcel stated the balance of cost of removal already collected, or negative net plant balance, decreased from $8.1 million in its 2012 filing to $4.9 million in its 2013 supplemental filing as the result of the Company recording some of the cost of removal already incurred.

The updated year-end 2013 estimate of remaining removal costs at Minnesota Valley is shown in the table below.

	Estimate
Asbestos abatement	$ 4,500,000
Demolition w/ scrap credit	3,670,852
Site work	160,000
Oversight and Administrative	2,544,301
Contingency	2,650,593
Escalation	652,730
Coal yard closure	1,875,000
Hazardous material abatement	880,000
Total	**$ 16,773,636**

The Company stated in its 2013 test year electric rate case, the Commission approved a reallocation of reserve within the Steam Production function to the Minnesota Valley plant in order to cover all expected future removal costs. Xcel implemented that reserve reallocation based on the estimated removal costs in its rate case, which were the same as the costs presented in the 2012 remaining lives filing. Thus, the net plant balance of -$4.9 million mentioned above became -$21.2 million after this reallocation.

Black Dog Unit 5 Net Salvage Rate

The net salvage rate proposed for Black Dog Unit 5 was calculated by dividing the $3.9 million removal cost estimate for other production by the total plant balance for Unit 5 and the E311 – Structures and Improvements account of the steam production units as of December 31, 2012, of $171.0 million. The steam production structures and improvements were included in the calculation because these structures will likely be used for any future other production activities after the steam production units are retired. This calculation results in a net salvage rate of negative 2.3 percent. Xcel stated it is proposing a net salvage rate of negative 1.7 percent because the Company normally uses 75 percent of the costs included in the Cost Study if a unit has a remaining life greater than or equal to ten years, but less than twenty years. Black Dog Unit 5 has a proposed remaining life of 19 years as of January 1, 2013.

Filing Requirements

The Company stated it agreed with the Department recommendations for filing the 2014 review of remaining lives by the end of February 2014 and the filing of the reconciliation between resource planning lives and depreciation lives.

Xcel Supplemental Comments 2-5-14

After a discussion with Department Staff on February 4, 2014, Xcel stated it realized its Reply

Comments were not entirely clear regarding the depreciation expense included in its 2013 test year electric rate case for Black Dog Unit 5. The Company submitted this Supplement to provide documents showing that the reduction in depreciation expense for Black Dog Unit 5 was included in our 2013 test year electric rate case (Docket No. E-002/GR-12-961).

Department Response Comments

The Department noted that the additional information provided by the Company in their February Reply and Supplemental Reply Comments, have addressed the concerns and questions raised by the Department in its January 8th Comments. As a result, the Department recommended that the Commission approve the Company's 2012 Annual Review of Remaining Lives and 2013 Supplement.

The Department recommended that the Company continue to update in future depreciation filings the removal costs for the Minnesota Valley Plant and the impact on depreciation reserves, including a final true-up when the retirement/removal is completed.

In its February Reply Comments, Xcel provided information to support the net salvage rate for Black Dog Unit 5, as requested by the Department. The Company also provided additional information showing that the resulting reduction in depreciation expense for Black Dog Unit 5 was incorporated in the Company's 2013 test year electric rate case. As a result, the Department recommends that the Commission accept Xcel's proposed Black Dog Unit 5 net salvage change.

Staff Analysis

Even though this is the 2013 filing, Xcel made it as a supplemental update to the 2012 filing (12-151). Most of the issues addressed here are the same as in 12-151. Because those issues are addressed in that docket, they do not need to be determined in this docket. Most of the comments are those that update the information from the 2012 filing. The parties are in agreement with approving Xcel's request for 2013. Staff has not identified any issues that would raise concerns for the Commission.

In its October 1, 2013 filing Xcel stated that in its 2013 rate case the Commission ordered the depreciation expense for 2013 on all of Sherco Unit 3 be deferred until January 1, 2014. This results in $13.4 million of deferred depreciation expense for 2013.

In its Comments the Department argued that deferral of 2013 depreciation expense for Sherco 3 into the Company's current 2014 and 2015 test year rate case is simply an opportunity for the Company to request recovery of the 2013 depreciation expense for Sherco 3 and is not a guarantee of rate recovery.

In the 2013 rate case (12-961), the ALJ included the following finding:

> 134. For these reasons, the Administrative Law Judge recommends that the

> Commission authorize the Company to defer its 2013 depreciation expense ($11.218 million), its 2013 property tax expense ($5.301 million), and its 2013 return on rate base for Sherco 3. If permissible from an accounting perspective, the Administrative Law Judge also recommends that the Commission authorize deferral of the 2013 payroll taxes ($296,876), 2013 fuel handling costs ($462,842), and 2013 insurance costs ($485,920). In effect, the Administrative Law Judge recommends that all 2013 direct Sherco 3 costs, other than the variable costs that the Company has agreed to exclude, be deferred and amortized beginning in 2014.

In its September 3, 2013 Order, the Commission stated on page 6:

> The Administrative Law Judge found it proper to balance ratepayers' interests in rate relief with the Company's interests in cost recovery. She recommended deferring these costs and amortizing them over the remaining life of the plant, beginning in 2014.
>
> The Commission concurs in part, as explained below.

And on page 23:

> Additionally, the Commission will allow Xcel to defer the unit's 2013 depreciation expense.

As a result of this decision, the depreciation expense for Sherco 3 for 2013 is zero which resulted in a decrease of $13.4 million from 2012. However, Staff notes that the ALJ recommendation adopted by the Commission defers the 2013 depreciation which is then amortized over the remaining life of Sherco 3. That life is 21 years subject to change as the result of the required engineering study.

In the last rate case (12-961), the Commission ordered that 41.6% of the Monticello LCM/EPU project costs incurred since the 2010 rate case be transferred to Construction Work in Progress (CWIP) effective January 1, 2013. Depreciation expense is not recorded on CWIP. Because there is no depreciation expense for the $34.8 million transferred from Plant in Service, 2013 expense decreased from the amount of depreciation expense that would have been recognized if that amount had remained in Plant in Service. This transfer resulted in a decrease to 2013 depreciation expense of $2.0 million. Because depreciation expense is not recorded on CWIP, there is no expense to defer, so the $2 million was not deferred to a future period.

Decision Alternatives

Service lives, salvage rates, and resulting depreciation rate

1. Approve Xcel's proposed 2013 service lives, salvage rates, and resulting depreciation rate effective January 1, 2013 for plants in service. This includes:
    - a new six year life for the Granite City plant.
    - a 20 year life for the Wescott Compressor Equipment account
    - a negative salvage rate of 29.7 percent rate for Black Dog Units 3 and 4
    - a negative salvage rate of 1.7 percent for Black Dog Unit 5.

    (Xcel, DOC)

2. Do not approve Xcel's proposed 2013 service lives, salvage rates, and resulting depreciation rate.

Future Filings

3. Require Xcel to continue to provide in future depreciation studies an explanation and schedule of the differences between the depreciation remaining lives and Integrated Resource Planning lives of electric production plant. (Xcel, DOC)

4. Require Xcel to continue to provide in future depreciation studies a historical comparison of changes in remaining lives and net salvage rates. (Xcel, DOC)

5. Require Xcel to file its next five-year depreciation study and net salvage rate study for electric and gas production and gas storage facilities on February 17, 2015. (DOC)

6. Require the Company to continue to update in future depreciation filings the removal costs for the Minnesota Valley Plant and the impact on depreciation reserves, including a final true-up when the retirement/removal is completed.

Recommendation

Staff recommends 1, 3, 4, 5, and 6