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—Via Electronic Filing—

March 24, 2015

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

Re: OAG REQUEST FOR ADDITIONAL INFORMATION ABOUT THE COMPANY'S RATE  
MODERATION PROPOSAL  
NORTHERN STATES POWER COMPANY - ELECTRIC RATE CASE  
DOCKET NO. E002/GR-13-868

Dear Mr. Wolf:

Northern States Power Company, doing business as Xcel Energy, submits this letter in response to the Office of Attorney General's request for additional information about the rate moderation proposal discussed by the Company during the oral argument on March 20, 2015.<sup>1</sup> We agree with the OAG that providing more information about our proposal for avoiding a 2016 rate case would be helpful to the Commission and our stakeholders. As a point of clarification, we do note that the financial impact of our proposal on 2014 and 2015 rates is found throughout the record.<sup>2</sup>

We believe responding to the following three questions is an efficient way of providing information that will assist with understanding our proposal.

- *Does the Company believe it will need to file for rate relief for 2016?*
- *How would the Company avoid a 2016 electric rate case?*
- *What are the financial and rate impacts of the Company's proposed use of rate moderation that result in a 2016 rate case being avoided?*

We have organized this letter to respond to each of these questions in turn.

**A. Does the Company believe it will need to file for rate relief for 2016?**

Yes, the record demonstrates that the Company will have a significant deficiency in 2016. Mr. Clark explained in his rebuttal testimony that for the 2014 to 2016 time period "our

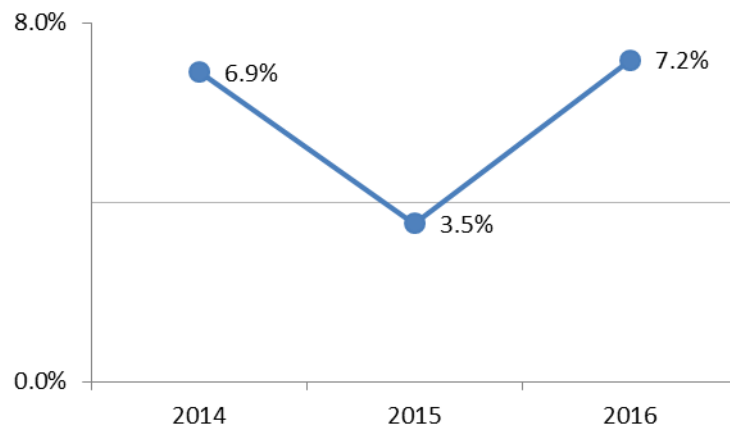
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<sup>1</sup> The Company notes that the specific proposal it presented at oral argument was discussed in its Exceptions, and each of the components has been fully discussed on the record.

<sup>2</sup> Sparby Rebuttal at p. 4 (discussing deficiency and request) Clark Rebuttal at pp. 36-42 (discussing 2015 and 2016 deficiency and impacts of rate moderation, including 50-0-50), Robinson Rebuttal at pp. 11-19 (quantifying effects of different rate moderation proposals, including 50-0-50); Heuer Opening Statement.

current investment and revenue cycles are generating total moderated revenue deficiencies averaging approximately \$150 million per year.”<sup>3</sup> Additionally, the Company has known cost increases that were not included in the 2015 Step Year (consistent with our interpretation with the Commission’s multi-year rate plan order) but which are contributing to our 2015 revenue deficiency.<sup>4</sup> Lastly, our 2016 test year deficiency will be affected by the outcome of the Commission’s revenue requirement determination in this case. Determining whether the Company should recover the Pleasant Valley and Borders wind projects in base rates or the RES rider demonstrates this interrelationship.

The Company recently revisited its capital forecast and can confirm that it has a revenue deficiency greater than \$200 million for a 2016 test year. The figure below illustrates our deficiencies from 2014 and 2015, as filed, and forecasted for 2016.



As we explained during the oral arguments, we believe there is a value proposition for our customers, the Company and our regulators if a 2016 electric rate case can be avoided.

## **B. How would the Company avoid a 2016 electric rate case?**

At the outset, the Company recognizes there are different combinations of rate moderation tools that can be applied so that a 2016 electric rate case could be avoided. Also, there are protections that can be used to ensure that our customers pay just and reasonable rates. With that said, the Company outlined its preferred plan as part of its recommended decision alternatives which were filed with the Commission this past Friday. The unique benefit of our proposal is it results in no rate increase in 2016.

The foundation of our plan is premised on approval of the ALJ Report, on revenue requirement issues, and our interim rate proposal. From there, the building blocks of our proposal can be added. Specifically: (1) using a 50-0-50 depreciation pattern for T, D and

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<sup>3</sup> Clark Rebuttal at p. 41.

<sup>4</sup> Heuer Direct at pp. 146-157, Sch. 27 (providing 2015 cost of service); Perkett Rebuttal at pp. 3-7 (discussing 2015 costs not requested in case); Robinson Direct at pp. 3-39 (discussing specific projects and costs included in the 2015 Step).

G theoretical reserve, (2) recovering the Pleasant Valley and Borders wind projects through base rates in 2015, (3) using the DOE refund to moderate rates in 2015, and (4) using \$70 million of nuclear theoretical reserve in 2016. Each one of these rate moderation tools was discussed and is supported on the record.<sup>5</sup> The only new aspect of our proposal is timing related to using the nuclear theoretical reserve in 2016.

**C. What are the financial and rate impacts of the Company’s proposed use of rate moderation that result in a 2016 rate case being avoided?**

The OAG asked for the financial and rate impacts of our proposed use of rate moderation. We interpret this to be asking for the change in present revenues associated with our proposal when compared to our as filed request; and the incremental bill impacts of our proposal when compared to interim rates.

Prior to presenting this information, we note several assumptions. First, we are relying on the information in the record to demonstrate the magnitude of our 2016 revenue deficiency. Meaning the actual size of a 2016 test year case could be larger. Second, we assumed adoption of the ALJ’s Report, on revenue requirement issues, and our interim rate proposal. Third, we are incorporating our understanding of the Commission’s decision related to the Monticello prudence review. We recognize the Commission speaks through its orders, but we did an initial assessment for financial accounting purposes which we are using here.

As it pertains to the financial impact, Table 1 summarizes our analysis by quantifying the average incremental percent increase in revenues over present 2014 revenues from each scenario.

**Table 1**

Scenario	2014	2015	2016 <sup>6</sup>
Filed w/o moderation	6.9%	3.5%	7.3%
Monticello + ALJ Report w/o moderation	5.3%	5.1%	7.3%
Monticello + ALJ Report w/ 50-30-20	2.3%	4.0%	7.3%
Monticello + ALJ Report w/ 50-0-50	2.3%	6.4%	4.6%
Monticello + ALJ Report w/50-0-50 and \$70 M Nuc. Theo. Res.	2.3%	6.4%	0%

<sup>5</sup> Clark Direct at pp. 26-30; Clark Rebuttal at pp. 26-29, 36-42; Robinson Direct at pp. 29-34; Robinson Rebuttal at pp. 3-7, 11-19; Pollack Direct at pp. 9-20.

<sup>6</sup> Consistent with the preceding paragraph, the figures identified in this column are derived from our projections of the 2016 revenue deficiency that are supported on the record.

We note that the Commission’s decision finding the Monticello EPU not used and useful in 2014 results in a greater rate increase in 2015 than our initial filed case. This is because the revenue requirement associated with the Monticello EPU is no longer included in 2014 but instead is included in 2015 as part of the 2015 Step.

In Table 2, we present our best estimate of the bill impact an average residential customer will experience. We note that these are our best estimates and will change depending on several factors, primarily the Commission’s decision regarding our revenue requirement for 2014 and 2015.

**Table 2**

Scenario	2014 <sup>7</sup>	2015	2016 <sup>8</sup>
Interim Rates	5.0%	0%	7.3%
Monticello + ALJ Report w/o moderation	N/A	N/A	7.3%
Monticello + ALJ Report w/ 50-30-20	5.0%	1.5%	7.3%
Monticello + ALJ Report w/ 50-0-50	5.0%	4.0%	2.3%
Monticello + ALJ Report w/50-0-50 and \$70 M Nuc. Theo. Res.	5.0%	4.0%	0%

The Company believes Table 2 also helps illustrate the benefit and need for our interim rate proposal. Interim rates were moderated in 2014 with the use of 50 percent of the T, D, and G theoretical reserve. As interim rates are currently structured, however, our customers are not seeing an increase in 2015 for interim rates. This means that our customers continue to receive the benefit of moderated interim rates even though a lesser amount, if any, of T, D, and G, theoretical reserve will be applied in 2015. Our interim rate proposal recognizes the value our customers received from moderated interim rates while balancing the change in expense we are experiencing by using different theoretical reserve amounts in 2014 and 2015. The other way to accomplish this level of balance would have been for the Company to request an interim on interim rate increase for 2015.

In addition to these tables, as Attachment A we provide three graphs which illustrate our financial and bill impact analyses.

<sup>7</sup> We note the retail interim rate increase was 4.57%.

<sup>8</sup> Consistent with footnote 5, the figures identified in this column are derived from our projections of the 2016 revenue deficiency that are supported on the record.

If you have any questions regarding this submission, please contact me at (612) 215-4663 or [aakash.chandarana@xcelenergy.com](mailto:aakash.chandarana@xcelenergy.com).

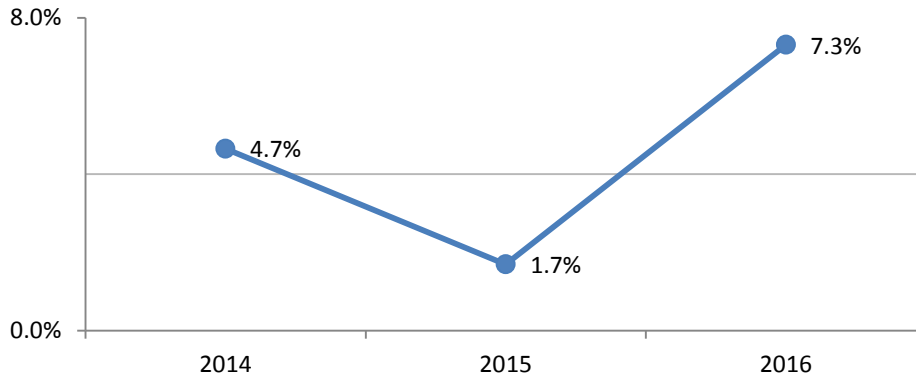
Sincerely,

/s/

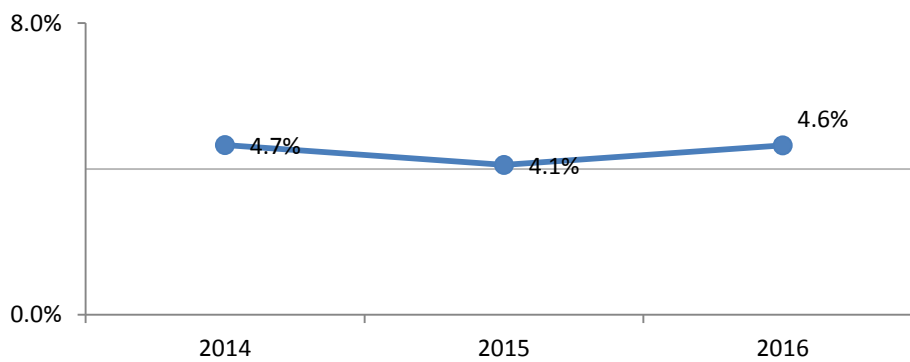
AAKASH H. CHANDARANA  
REGIONAL VICE PRESIDENT  
RATES AND REGULATORY AFFAIRS

Enclosures  
cc: Service List

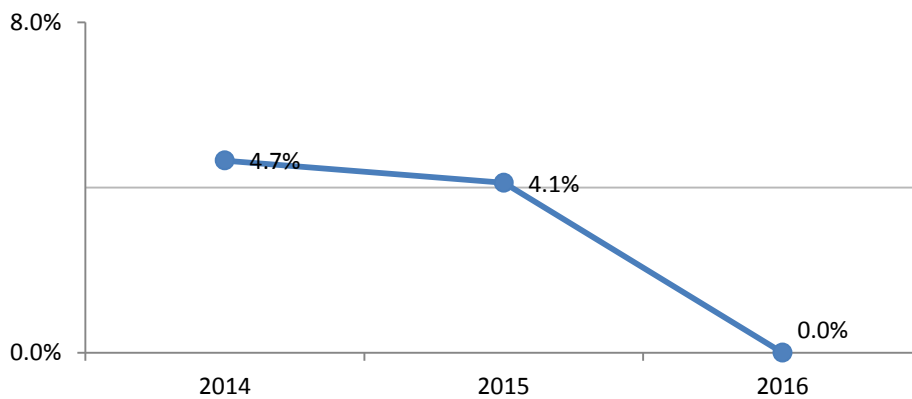
### ALJ Recommendation (50-30-20) and Monticello Prudence Decisions



### ALJ Recommendation and Monticello Prudence Decisions plus 50-0-50 moderation



### 2016 Stayout Proposal



2014 represents interim level of \$127.3m

**CERTIFICATE OF SERVICE**

I, Tiffany R. Hughes, hereby certify that I have this day served copies or summaries of the foregoing document on the attached list(s) of persons.

xx electronic filing

Docket No. E002/GR-13-868

Dated this 24th day of March 2015

/s/

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Tiffany R. Hughes

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