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August 17, 2012

Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: *Response Comments* of the Minnesota Department of Commerce,
Division of Energy Resources
Docket No. E,G002/D-12-151

Dear Dr. Haar:

Attached please find the Minnesota Department of Commerce, Division of Energy Resources (DOC or the Department) *Response Comments* to the *Reply Comments* of Northern States Power Company (Xcel or the Company) in the following matter:

Northern States Power Company's (Xcel or the Company), a Minnesota Corporation, Request for Approval of the Annual Review of Remaining Lives (RL), Depreciation for Electric and Gas Production and Gas Storage Facilities and Net Salvage Rates for 2012.

Based on our review of Xcel's *Reply Comments*, the Department recommends **approval of Xcel's revised proposals with an additional reporting requirement** and is available to answer any questions that the Commission may have.

Sincerely,

/s/ NANCY A. CAMPBELL
Financial Analyst

/s/ LERMA LA PLANTE
Financial Analyst

NAC/LL/sm
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

RESPONSE COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE,
DIVISION OF ENERGY RESOURCES

DOCKET NO. E,G002/D-12-151

I. BACKGROUND

On February 17, 2012, Northern States Power Company, d/b/a Xcel Energy (Xcel or the Company) filed with the Minnesota Public Utilities Commission (Commission) its petition (Petition) for approval of its 2012 Annual Depreciation Study for electric and natural gas production facilities (Study). The Company requested that the Commission certify Xcel's proposed revisions in its depreciation rates and methods and authorize Xcel to make the necessary adjustments for book accrual purposes reflecting the proposed revised rates of depreciation to become effective January 1, 2012.

On June 27, 2012, the Department filed its comments on the Petition. The Department recommended that the Commission:

- a) approve Xcel's proposed service lives, salvage rates, and resulting depreciation rates effective January 1, 2012 for plant in service, except for those related to Blue Lake Units 1 thru 4, Granite City, Key City, Minnesota Valley and Sherco 3;
- b) deny Xcel's request to extend the life of Blue Lake Units 1 through 4 from one year to six years as of January 1, 2012;
- c) deny Xcel's request to extend the life of the Granite City Peaking Plant from one year to six years as of January 1, 2012;
- d) deny Xcel's request to extend the life of the Key City Peaking Plant from one year to six years as of January 1, 2012;

- e) 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 (IRP) planning lives of electric production plant;
- f) require Xcel to continue to provide in future depreciation studies a historical comparison of changes in remaining lives and net salvage rates;
- g) require Xcel to file its next annual remaining lives update for electric and gas production and gas storage facilities on February 18, 2013; and
- h) 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.

Further, the Department requested that Xcel provide the following in *Reply Comments*:

- i) further explanation to support the escalation and contingency cost categories comprising 27 percent of the total decommissioning cost estimate for the Minnesota Valley Plant;
- j) an update on the status of the sale of the Minnesota Falls Dam, including the updated net salvage rate for the Minnesota Valley Plant and the corresponding change in depreciation expense to reflect the sale of Minnesota Falls Dam; and
- k) confirmation that the major project additions for Sherco 3 were included in current rates for the 2011 test year, and what proportion was included as a plant addition to rate base and related depreciation expense.

Finally, the Department requested that Xcel provide sufficient support for its transmission and distribution average service life extensions in its July 2012 filing.

On August 6, 2012, Xcel filed its *Reply Comments* requesting that the Commission approve its Petition as revised in its *Reply Comments*. Specifically, Xcel proposed:

- that the proposed service lives, salvage rates, and resulting depreciation rates effective January 1, 2012 be approved as proposed in its original Petition, except for the proposed life extensions for the Blue Lake Units 1-4, Granite City, and Key City peaking plants, and the salvage rate for the Minnesota Valley Plant;
- to withdraw the life extension proposals for the Blue Lake Units 1-4, Granite City and Key City;
- to withdraw the net salvage rate for Minnesota Valley Plant proposed in its original Petition; and
- to reallocate the 2012 year-end accumulated depreciation reserve balances among the individual units in steam production by Federal Energy Regulatory

Commission (FERC) Accounts such that the Minnesota Valley Plant, including the updated removal costs proposed in its original Petition, is fully depreciated by the end of 2012.

II DEPARTMENT ANALYSIS

A. BLUE LAKE UNITS 1-4, GRANITE CITY, AND KEY CITY

The Department appreciates the Company's withdrawal of its request to extend the lives of these plants. As a result of this withdrawal, the decrease to depreciation expense in 2012 related to these plants would be eliminated and these plants would be fully depreciated by the end of 2012. The Company stated that these plants will continue to be part of the Midwest Independent System Operator (MISO) reserve margin and will not be retired at the end of 2012. However, there will be no depreciable life after 2012 and Xcel does not expect that any capital additions will be required to continue operating these plants.

The Department notes that the Company's withdrawal request is consistent with the Department's recommendation not to extend the lives of these plants.

B. MINNESOTA VALLEY REMOVAL AND DEMOLITION COST ESTIMATES

Currently, Xcel is authorized to recover projected demolition and dismantlement costs for the Minnesota Valley Plant through 2017 as approved by the Commission in the 2005 Depreciation Docket No. E,G002/D-05-288. Xcel's current Petition requested approval of a revised net salvage rate to reflect updated removal costs, including the costs to demolish the Minnesota Falls Dam, to be recovered over the remaining life of the plant. This change would result in an increase of \$1,660,619 in depreciation expense.

Beginning on page 3 of its *Reply Comments*, Xcel provided its total estimated cost of removal and demolition of the Minnesota Valley Plant and Minnesota Falls Dam at \$21,034,000, which includes both: 1) the correction of an error for the escalation amount as discussed on page 5 of Xcel's reply comments and 2) the original estimate for the Minnesota Falls Dam removal – see trade secret number as provided on page 9 of Xcel's initial filing.¹ Xcel provided the information below as further support for its proposal for addressing the cost of removal and demolition costs for the Minnesota Valley Plant and Minnesota Falls Dam:

While we continue to support the updated removal cost estimates in Section C below, to eliminate the continuation of depreciation expense for this retired asset after 2012, we propose to use the accumulated depreciation reserve balance to fully depreciate

¹ Xcel noted on page 7 of its *Reply Comments* that the Minnesota Valley Dam sale will no longer occur, therefore, Xcel continues to incorporate the cost of removal for the dam in its Minnesota Valley Plant costs of removal and demolition costs.

Minnesota Valley by the end of 2012 and reallocate the depreciation expense across each FERC Account for steam production. Specifically, we propose to reallocate the 2012 year-end accumulated depreciation reserve balances among the individual units in steam production by FERC Account, such that as of the beginning of 2013, the Minnesota Valley steam plant reserve balance will equate to the sum of both the plant balance and our most recent remaining cost estimate for demolition and dismantlement of \$21,034,000. Further details related to this demolition cost estimate are provided in Section C below.

Using the current approved remaining life and net salvage rate of Minnesota Valley the net book value is negative \$8,135,823. For Minnesota Valley to be fully depreciated at the end of 2012, the net book value needs to be a negative \$21,034,000. We propose to resolve the deficit of \$12,898,177 (\$21,034,000-\$8,135,823) by transferring reserve from the operating steam plants to Minnesota Valley. Attachments 1 and 2 provide details regarding this reallocation.

As a result of this reallocation, the Minnesota Valley Plant will be fully depreciated as of the beginning of 2013, and total steam production depreciation expense will decrease by \$221,585 for 2013, as shown in the table below. The decrease in depreciation expense for 2013 is a combination of Minnesota Valley steam plant depreciation expense decreasing by \$1,274,317, since it will be fully depreciated in 2012, and depreciation expenses for all other steam production units increasing by \$1,052,732 million, since their respective depreciable basis will have increased as a result of the reallocation process.

Xcel stated that, although the Company provided an estimated demolition cost for the Minnesota Valley Plant, which is incorporated into the reserve reallocation calculations, the Company will continue to track the actual costs for demolition of the plant and dam. Any deviation from the estimated amount will be trued up and accounted for in the total steam production depreciation reserve.

The Department notes that this treatment by Xcel of the reallocation of the reserve within the steam production plants is generally the same as if there were a gain on sale of a facility that was recorded to the reserve. The Department considers Xcel's proposal to reallocate the \$12.9 million deficit among the steam production plant accounts to be reasonable since it is the same type and function of production plant. Basically, this treatment would allow Xcel to collect the unrecovered removal and demolition costs for the Minnesota Valley Plant over the future life of other related steam plants.

The Department is concerned that only about 40 percent of the removal and demolition costs for Minnesota Valley Plant was collected over the life of the plant, with the remaining 60 percent to be recovered after the plant is no longer operating. The Department asks Xcel to be prepared to explain why this result occurred and what Xcel will do to ensure that such an occurrence does not happen with other plants.

The Department is also concerned that theoretically the 15 percent contingency cost built into the Minnesota Valley Plant removal and demolition is rather high; however, the Department is less concerned about this issue because of the true-up to actual costs that will occur when removal of this plant is completed and recovered in the reserve - Account 108, Accumulated Provision for Depreciation of Electric Utility Plant. Thus, the DOC recommends approval of the Company's revised proposals with the requirement that Xcel provide a compliance item in Xcel's future Depreciation Study filing when the final retirement is completed. The compliance filing should include information regarding a comparison of estimated retirement costs (including cost of removal, demolition costs, salvage, etc.) to actual retirement costs, and the final accounting for the Minnesota Valley Plant retirement.

C. *SHERCO UNIT 3 2011 PLANT ADDITIONS*

Xcel has provided in its *Reply Comments* the additional information that the Department requested related to the 2011 capital investment at Sherco 3 and associated rate treatment. Based on its review of additional data provided by Xcel, the Department has no further concerns on this matter and appreciates Xcel's response.

III. RECOMMENDATIONS

The Department recommends that the Commission:

- approve Xcel's proposed service lives, salvage rates, and resulting depreciation rate effective January 1, 2012 for plants in service as revised in its August 6, 2012 *Reply Comments* (which reflects the withdrawal of the life extensions for Blue Lake 1-4, Granite City, and Key City);
- 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;
- require Xcel to continue to provide in future depreciation studies a historical comparison of changes in remaining lives and net salvage rates;
- require Xcel to file its next annual remaining lives update for electric and gas production and gas storage facilities on February 18, 2013;

- 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; and
- require Xcel to provide a compliance item in Xcel's Depreciation Study when final retirement is completed for the Minnesota Valley Plant. The compliance filing should include information regarding a comparison of estimated retirement costs (including cost of removal, demolition costs, salvage, etc.) to actual retirement costs, and the final accounting for the Minnesota Valley retirement.

Finally, the Department requests that Xcel provide an explanation as to why only about 40 percent of the removal and demolition costs for Minnesota Valley Plant was collected over the life of the plant, with the remaining 60 percent to be recovered after the plant was no longer operating, and to explain what Xcel will do to ensure this does not occur with other plants.

/sm

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
Response to Reply Comments of Xcel Energy**

Docket No. E,G002/D-12-151

Dated this 17th of August, 2012

/s/Sharon Ferguson

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