BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION
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ST. PAUL, MINNESOTA 55101-2147

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IN THE MATTER OF THE APPLICATION OF NORTHERN STATES POWER COMPANY FOR AUTHORITY TO INCREASE RATES FOR ELECTRIC SERVICE IN STATE IF MINNESOTA

MPUC Docket No. E-002/GR-13-868

REQUEST FOR RECONSIDERATION AND CLARIFICATION OF THE MINNESOTA DEPARTMENT OF COMMERCE

MAY 28, 2015

I. INTRODUCTION

On May 8, 2015, the Minnesota Public Utilities Commission ("Commission") issued its *Findings of Fact, Conclusions of Law and Order* ("May 8, 2015 Rate Case Order") in the above-referenced electric rate case of Northern States Power Company d/b/a Xcel Energy ("Xcel" or "Company"). The Minnesota Department of Commerce, Division of Energy Resources, Energy Regulation and Planning Unit ("Department" or "DOC") acknowledges and appreciates the Commission's detailed order on the many complex ratemaking issues presented. The Department respectfully requests reconsideration on one issue and seeks clarification for the purpose of accurately calculating the rate impact in the present docket of the Commission's decision in the Monticello prudency docket, MPUC Docket E-002/CI-13-754, as follows:

- The Department requests reconsideration regarding the Department's "Passage of Time" recommended adjustment and filing requirements for future multi-year rate cases; and
- The Department seeks clarification that it is unreasonable for Xcel to reduce the rate base amount for the portion of the Monticello plant against which no return is to be applied (thereby decreasing the impact of earning no return) by incorrectly assigning accumulated depreciation from past years to the no return portion of the Monticello plant.[1]

The Department appreciates the Commission's considerations of these limited requests.[2]

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[1] The Department identified Xcel's incorrect assignment of accumulated depreciation as part of the Department's review of Xcel's April 24, 2015, draft Compliance Filing – Preliminary Schedules ("Preliminary Financial Compliance Filing").

[2] Filed separately, the Department also addresses issues with Xcel's compliance filings, which were filed prior to the Commission issuing its *Findings of Fact, Conclusions of Law and Order* in this proceeding.

II. RECONSIDERATION AND ADOPTION OF THE DEPARTMENT'S PASSAGE OF TIME ADJUSTMENT IS REASONABLE AND IS CONSISTENT WITH GENERAL RATEMAKING PRACTICE

As noted by the Commission, Department, and Company in this rate case proceeding, the depreciation adjustment for passage of time is a new financial issue that is tied to multi-year rate plans. The Department appreciates and supports the following language in the Commission's May 8, 2015 Rate Case Order regarding the depreciation adjustment for the passage of time, as stated on page 25:

> Because this is the Commission's first chance to consider a multiyear rate-case proposal, novel issues unique to multiyear rate-setting are presented for the Commission's consideration. One of these issues is how the Company should account for changes in rate base, depreciation expense, and accumulated depreciation reserve over the course of a multiyear plan.
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> The Department and the Company did not agree on how the Company's rate base should be adjusted from the 2014 test year to the 2015 Step. In a traditional rate case, the Commission would approve a test-year rate base that would remain in effect until the next rate case. All other things being equal, a lower rate base value would mean lower rates. At issue is whether the Company's proposal improperly excluded rate-base reductions attributable to depreciation and expected retirements.

The Department also appreciates Findings 226 through 229 of ALJ's report. The Department notes that the newness of this issue and confusion created in this record merit reconsideration of the effects of the passage of time, especially in light of one of the most important provisions in Minnesota ratemaking, as identified in Minnesota Statute section 216B.16, subdivisions 4 and 19: that the burden of proof to demonstrate that the proposed rates are reasonable "is on the public utility."

The Department concludes that Xcel not only did not meet its burden of proof to show that its proposed rates are reasonable, the Company caused confusion in the record on the issue of how the passage of time affects the level of depreciation expense included in rates. The Department highlights its concerns with this lack of adequate and reasonable record development and respectfully seeks reconsideration on this issue. The Department discusses below why this issue should be decided in favor of ratepayers as a result of the record in this case. In addition, the Department discusses how the depreciation adjustment of the passage of time can be better addressed in the next multi-year rate case.

A. The ALJ Report Provided Detailed Analysis and Reasonable Policy Recommendations

The Administrative Law Judge ("ALJ") Report dated December 26, 2014 in Docket No. E002/GR-13-868 provided on pages 49 to 51 the ALJ's analysis on the depreciation adjustment for the passage of time. The ALJ's analysis agreed that the Multi-Year Rate Plan ("MYRP") Order requires the Commission to consider both depreciation expense and changes in rate base in determining whether the MYRP will result in just and reasonable rates. The ALJ's analysis also agreed with the Department that the Commission should consider the effects of the passage of time on depreciation and rate base in determining the 2015 Step revenue requirement. The ALJ noted that the 2015 Step would otherwise not take into account known and measurable changes in depreciation expense, rate base, and accumulated depreciation reserve for non-Step projects placed into service in 2014, and would only reflect changes due to Step projects (which the Department notes would only be increases in depreciation expense and rate base as requested by the Company).

B. The ALJ Report's Recommendations Regarding the Effects of the Passage of Time on Rates Were Accurate Only in Part, Due to Confusion Caused by Xcel in the Record

The ALJ stated that the Department's $17.53 million downward adjustment only reflects the change in accumulated depreciation for non-Step projects placed into service in 2014, and does not reflect the increased depreciation expense due to annualization of depreciation expense for projects added in 2014, or the additions to rate base from these same projects. The ALJ concluded that when the additional passage of time components are considered, they more than offset the passage of time reductions recommended by the Department, and as a result concluded that no downward adjustment was necessary. While the Department would not object to the Commission allowing Xcel's 2015 Step to include annualization of any 2014 non-Step projects that are not already reflected in the 2015 Step, this amount is expected to be small (this figure is not provided in the record).[3] The Department, however, remains concerned that Xcel's $18.479 million figure is not appropriate, since it is based on a 2015 revenue requirement not actually requested by the Company.

C. The Department's Passage of Time Adjustment is Reasonable Based on the Record

The Department's testimony supported its recommended downward adjustment of $17.53 million for the passage of time. However, Xcel's shifting positions in this proceeding regarding whether the Company was or was not requesting recovery of all costs in 2015 that it believed it could request, along with its changing position on the effects of the passage of time, convoluted the record. Due to the confusion Xcel caused in this record, the Department briefly highlights development of this issue in the record.

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[3] See Volume 5 of Evidentiary Hearing Transcript at pages 52-53 and Department Initial Post Hearing Brief at 235-236.

In Xcel's Direct Case, the Company made it clear that it was not requesting recovery of all capital costs it believes it could have requested, as indicated for example in Mr. Sparby's Direct Testimony:[4]

> Q. PLEASE SUMMARIZE THE COMPANY'S REQUEST IN THIS PROCEEDING.
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> A. We propose a multi-year rate plan, requesting an average retail rate increase of 6.9 percent in 2014 and 3.5 percent in 2015, compared to present rates. We base this increase on a revenue deficiency of approximately $192.7 million in the 2014 test year and a 2015 step increase of approximately $98.5 million. Both the 2014 and 2015 revenue deficiencies are based on a 10.25 percent return on equity.
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> Q. DOES YOUR RATE REQUEST REFLECT THE FULL REVENUE DEFICIENCIES IN 2014 AND 2015?
>
> A. No. These amounts do not reflect the full deficiencies in those years, but rather have been adjusted to provide more predictable prices and moderate the pace of increases for our customers. Were our case based on our full revenue deficiencies our rate request would be approximately 10 percent in 2014 (based on a $273.8 million deficiency) and approximately 4 percent in 2015 (based on a $117.9 million deficiency).

To ensure that Xcel reasonably addressed issues such as depreciation in the 2015 Step year, Ms. Campbell's Direct Testimony provided her review of how the Company addressed the effects of the passage of time on costs in the 2015 Step year, and identified her concerns regarding Xcel's assertions that the Company was entitled to recover costs they explicitly excluded from their requested rate increase:[5]

> **Q. Did you ask if the Company had updated depreciation expense and accumulated depreciation for the 2015 passage of time?**
>
> A. Yes, I asked whether the Company's 2015 test year updated depreciation expense and accumulated depreciation for the passage of time for all plant in rate base (excluding 2015 step projects in which depreciation expense and accumulated depreciation were already included by the Company). I also asked for an explanation for why the Company did not update

[4] Xcel Ex. 25 at 3-4 (Sparby Direct).
[5] DOC Ex. 431 at 160-165 (Campbell Public Direct) (Emphasis added).

depreciation for 2015. The Company provided the following response to DOC information request 1116:

> The Company's 2015 Step request represents the incremental revenue requirements on select Step projects. For these select projects, the 2015 depreciation did impact the depreciation reserve, creating a decrease to rate base.
>
> For purposes of comparison to our 2015 Step request, as referenced in the Direct Testimony of Company witness Ms. Anne Heuer, the Company's initial case filing included a full 2015 [cost of service study] COSS, which represented all changes in rate base and expense including the 2015 depreciation impact to the depreciation reserve on all assets. This impact is represented in Exhibit___(AEH-1), Schedule 27. As shown in Schedule 27, the Company's total incremental 2015 deficiency is $134,975,000. As shown in Table 21 of Company witness Mr. Jeffrey C. Robinson's Direct Testimony, the Company's requested 2015 Step increase is $98,533,000. The limited scope of the 2015 Step request is intended to reflect the major capital cost drivers of the 2015 deficiency and facilitate review of those drivers without requesting a Step rate increase at the full level that would reflect all components of rate base and expense.

DOC Ex. 435 at NAC-31 (Campbell Direct).

Q. How do you respond to Company response above?

A. First, I note that ***the Company confirmed that they only updated 2015 depreciation expense and accumulated depreciation (or depreciation reserve) for the Company's capital projects reflected in the Company's 2015 step; they did not, for example, update for the passage of time***.

Second, I note that while the Company is correct that they recorded accumulated depreciation/depreciation reserve which reduced rate base for their 36 capital step projects for 2015, the Company fails to note that they also significantly increased depreciation for the 36 capital projects for 2015 and that this depreciation expense increased more than enough to offset the smaller decrease in rate base (resulting in a net increase in depreciation for purposes of these 36 capital projects).

Third, as discussed above, it is unfair and inequitable to ratepayers not to reflect the 2015 depreciation expense and accumulated depreciation reduction for the passage of time for existing plant in rate base that ratepayers are currently paying for, while requiring ratepayers to pay for higher depreciation amounts caused by the 36 capital projects in 2015. The Company will not incur the 2014 return on a higher rate base amount in 2015 and it is not fair to update for 36 new plant additions and their net increase due to 2015 depreciation and not recognize the net decrease in depreciation, due to the passage of time, for all other plant in rate base.

Fourth, ***I don't agree that updating for the passage of time for 2015 depreciation expense and accumulated depreciation for existing plant in rate base warrants Xcel suggesting that the Company could have asked for their full revenue requirement deficiency for 2015 of their estimate of $134,975,000 instead of the incremental step deficiency the Company actually asked for of $98,533,000***. My recommendation to update for the passage of time for 2015 depreciation for plant in rate base is symmetrical to the Company's update of the 2015 step depreciation update for their 36 capital projects. The full 2015 deficiency is not symmetrical, but instead would reflect any and all adjustments determined by the Company and not reviewed in any detail by the Department or other party.

Q. Did you ask the Company any follow-up questions?

A. Yes, ***I asked the Company to update and show <u>all</u> calculations for the passage of time for 2015 depreciation expense and related accumulated depreciation reserve for all plant in rate base (except 2015 capital step projects which the Company has already reflected in its 2015 step)***. Specifically, I asked the Company in DOC information request no. 2113 to provide the rate base, income statement and revenue requirement effect of updating depreciation expense and accumulated depreciation reserve to reflect the passage of time for 2015 (except for 2015 step projects already reflected in the 2015 step). The Company provided the following response:

> As indicated in the response to DOC-1116, the Company does not believe it to be appropriate to apply such an adjustment in the context of the limited 2015 STEP. Attachment A to this response provides a summary of the impact in 2015 of rolling the average depreciation reserve forward one year while excluding 2015 STEP projects already considered in the STEP and all other 2015 additions to plant-in-service. The Company also has excluded all TCR rider property from these calculations as these costs are being excluded from the case.
>
> As shown in Attachment A, the result of these calculations causes a reduction to 2015 revenue requirements of $17,529,000. This is based on the rate base impact caused by an additional year of depreciation net of deferred taxes. The

> calculations also consider the impact of the MN-WI Interchange Agreement.

DOC Ex. 435 at NAC-32 (Campbell Direct).

> **Q. Based on your review of 2015 retirements and 2015 reduction of depreciation expense and accumulated depreciation based on the passage of time, what do you recommend?**
>
> A. … I recommend that the Commission approve the $17,529,000 reduction to 2015 revenue requirements for 2015 depreciation expense and accumulated depreciation due to the passage of time for all plant in rate base, except 2015 step projects already incorporated in the 2015 step revenue requirement.

Xcel's Rebuttal testimony made it clear that the Company's response to the Department's information request, on which the Department relied for its proposed $17.53 million adjustment, included all effects of the passage of time, except for annualization of depreciation for projects added in 2014:[6]

> Q. DID THE COMPANY'S RESPONSE TO INFORMATION REQUEST DOC-2113 INCLUDE THE ABOVE-DESCRIBED RATE BASE ANNUALIZATION EFFECTS?
>
> A. No. The information requested by the Department in Information Request (IR) DOC-2113 *summarized the impact in 2015 of rolling the average depreciation reserve forward one year, while excluding both projects already considered in the 2015 Step and all other 2015 additions to plant-in-service*. (See Exhibit___(LHP-2), Schedule 1.) (Emphasis added)

The Department notes that Xcel's reference to "all other 2015 additions to plant-in-service" refers to costs Xcel chose not to include in its rate case request, as identified above in Mr. Sparby's testimony. Thus, it was appropriate to exclude those projects from Xcel's response to the Department's information request, and it was appropriate to exclude the projects already included in the 2015 Step.

[6] Xcel Ex. 94 at 5 (Perkett Rebuttal).

Ms. Campbell, however, testified that, due to the limited information provided by Xcel, the Department was not able to verify Xcel's revised calculation referenced in Ms. Perkett's Rebuttal Testimony at 5-6 and in her Rebuttal Schedule (LHP-2) Schedule 2. For example, in response to questions by Xcel's attorney, Ms. Campbell testified that Ms. Perkett's Schedule 2 page 5 of 6 did not identify the assumptions included in the figures from which Xcel calculated an $18 million increase, and emphasized that Ms. Perkett's numbers had not been audited or confirmed by the Department.[7]

Ms. Campbell noted in her Surrebuttal Testimony that the Company's proposed 2015 Step already included nearly all of the cost increases due to capital additions in the rate proceeding, but did not include the effects of cost decreases:[8]

> I note that *the Company recorded all revenue requirements components (including depreciation) for the 36 capital projects included in their 2015 Step*. *The Company selected the 36 capital projects, which were either projects that went in service for part of the year for 2014 or were projects that went in-service in 2015, so for all of these 2014 projects, depreciation was annualized.* The inclusion of all 36 capital projects clearly benefited the Company, since every single capital project (as shown on Table 1 to 13 of Mr. Robinson Direct Testimony) increased the Company's revenue requirement. The increase for every capital project in the 2015 Step is because either the capital project was only in-service for part of the year in 2014 and now the 2015 Step captures the full requirement amount, or the capital project went in-service in 2015 and the 2015 Step picked up rate recovery for the period of time the capital project is forecasted to be in-service.
>
> *Therefore, the Company's 2015 Step method does a good job of capturing all increases in capital investment*, but does not capture the reduction in 2014 capital projects (rate base) due to the normal passage of time, for projects that the Company did not include in its 2015 Step. This imbalance is why I believe the Company's proposal is one-sided and unreasonable.
>
> …

[7] *See* Tr.V. 5 Evidentiary Hearing Transcript for Docket No. E002/GR-13-868 dated August 15, 2014 at 48 to 54 (Campbell).

[8] DOC Ex. 435 at 111-112, 115-116, and 118 (Campbell Public Surrebuttal) (bulleted language with emphasis added is summary in nature rather than an identical quotation).

- Xcel's reference to a "limited" number of capital projects is actually 36 capital projects that added $68.865 million to the revenue requirement for the 2015 Step (as shown on Table 13 of Mr. Robinson's Direct Testimony). This amount is material since it represents over 72 percent of the level of revenue requirements that Xcel proposes for 2015 ($68.865/$95.1 = 72.4 percent).
- The Department is concerned that the Company is treating its assertion that $713.4 million is the amount of the increase in rate base for the full 2015 forecast as if this amount had been examined in the same manner as the amounts for which Xcel actually requests cost recovery -- it has not, since the Company did not request recovery of this amount in this rate proceeding and all parties need to use limited resources as effectively as possible in this and numerous other proceedings. Thus, using this amount in arguing for the $579.9 million 2015 Step is not valid or reasonable.
- The Department is particularly concerned that the Company is proposing to use 2014, in which the requested rate base amounts are generally higher than in other years, and adding new incremental 2015 rate base amounts, where 2015 is also a high rate base year, for its proposed rates in this rate case for customers. That approach is like adding two peaks together and asserting that the sum of these two peaks is the new peak, even though a portion of the first peak declined.
- The Department notes ALJ finding 229 agreed with the Department that the effects of passage of time on depreciation and rate base should be included in the 2015 Step. Unfortunately, the ALJ also agreed that Xcel could update

depreciation expense for "non-step" 2015 projects that the Company did not even ask for in its rate increase request and as a result the Department did not review.

Thus, the Department remains concerned about the passage-of-time issue, especially since it appears that Xcel used their forecasted 2015 revenue requirement[9] (instead of its 2015 Step revenue requirement) to calculate their passage of time adjustment of an increase of $18.479 million rather than a decrease of $17.53 million. Basing 2015 rates on a 2015 forecasted revenue requirement that the Company stated at the outset was *not* being requested for rate recovery purposes, is highly troubling and should be re-examined in light of the confusion Xcel created in the record.

The Department concludes that the Company should be allowed to recover in the 2015 Step incremental depreciation and rate base increases and decreases tied to the 2014 revenue requirement and 2015 Step. However, the Company should not be allowed to recover a 2015 forecasted revenue requirement the Company explicitly excluded from its request in its initial case.

For all the reasons discussed, the Department requests that the Commission approve the $17.53 million downward adjustment for the passage of time. The Department would not oppose allowing Xcel to recover annualization of depreciation for any 2014 non-Step project that was not already annualized in the 2015 Step; however, this amount is expected to be small and this figure is not provided in the record.

[9] *See* Xcel Ex. 88 at Sch. 27 (Heur Direct).

D. Process and/or Record Concerns Primary Related to Passage of Time Depreciation Adjustment Issue

Circumstances related to the Company's discovery responses appear to have resulted in a less developed record than the Department would have preferred. The Department relied on the Company's April 16, 2014 response to DOC information request no. 2113 in proposing the Department's $17.53 million downward adjustment for passage of time. Unfortunately, the Company effectively changed its response to that information request response in the Company's July 7, 2014 Rebuttal Testimony (and provided less-than-clear calculations in Schedule 2[10] to support the revised information request response and Xcel's $18.479 million increase in revenue requirements based on what the Company asserted was the correct passage of time adjustment).

The Company's Schedule 2 contained no narrative, no footnotes, nor any explanation of calculations. Xcel's lack of support for such a material number – which results in a *$36 million difference* from Xcel's response to the Department's information request reflecting a $17.53 million *decrease* in revenue requirements due to the passage of time and Xcel's proposed *increase* of $18.479 million – is troubling. However, Ms. Perkett accurately described the first response, the $17.53 million reduction in revenue requirements, as summarizing "the impact in 2015 of rolling the average depreciation reserve forward one year, while excluding both projects already considered in the 2015 Step and all other 2015 additions to plant-in-service," and that is the correct calculation for rates.

Xcel's lack of support for its new number was very problematic for the Department because of the limited time to respond to the Company's July 7, 2014 Rebuttal Testimony in the Department's August 4, 2014 Surrebuttal Testimony, and due to the significant number of substantial financial (and other) issues the Department needed to address in Surrebuttal

[10] *See* Xcel Ex. 94 at Sch. 2 (Perkett Rebuttal).

Testimony. The Department continues to be concerned since: a) Xcel's 2015 Step already did a good job of capturing all increases in capital investment, b) under the circumstances in (a), a passage of time adjustment is expected to reduce costs,[11] and c) Xcel did not support its $18.478 million increase compared to its prior $17.53 million decrease.

Additionally, the Company had an opportunity to develop this issue further at the rate case contested case hearing, but chose not to do so. The Company began cross examining the Department witness about the Department's passage of time calculations, but when the Department witness asked for clarification about the calculations and columns represented in the document that Xcel referenced, the Company chose to withhold further questions to develop the record on this issue.[12] Lack of record development was of Xcel's own making.

Due to these process concerns and the resulting under-developed record, in addition to the Department's recommendations in this rate case, the Department urges the Commission to consider requiring the following in future rate cases regarding the issue of the passage of time:

- A directive that the Company must explicitly explain in Direct Testimony how the Company adjusts rates in years following the first year for the passage of time (all increased and decreased adjustments shown clearly); and
- A requirement for clear calculations, including narrative, detailed calculations, well-labeled information, and support for how calculations tie out to rate case requirement requested by the Company.

[11] Ms. Campbell explained this concept in Tr. Vol. 5 at 62.

> So my very simple example of you have a $100 asset, you have a . . . 10-year life, so it's . . . $10 of depreciation every year. So year one you record the $10 of depreciation expense and reduce the asset to $90 because of the accumulated depreciation, that's the stepdown, and the second year you start with a $90 rate base. You need to capture that $10 stepdown.

[12] *See* Tr.V. 5 Evidentiary Hearing Transcript for Docket No. E002/GR-13-868 dated August 15, 2014 at 48 to 54 (Campbell).

D. Conclusion

For the reasons discussed above, the Department urges the Commission to reconsider and then to approve the Department's recommended $17.53 million downward adjustment for the passage of time, and to provide administrative direction for future rate cases regarding this issue, as noted above.

As also noted above, the Department would not oppose allowing Xcel to recover in this rate proceeding annualization of depreciation for any 2014 non-Step project that was not already annualized in the 2015 Step; however, this amount is expected to be small and this figure is not provided in the record.

III. CLARIFICATION OF THE RATE CASE ORDER IS NEEDED TO ENSURE THAT RATEPAYERS ARE NOT HARMED BY XCEL'S ASSIGNMENT OF ACCUMULATED DEPRECIATION TO THE NO RETURN PORTION OF THE MONTICELLO PLANT

A. Xcel Incorrectly Calculated the Effect of the Commission's Order in the Monticello Docket E002/CI-13-754 By Using an Amount Lower than $333 Million on a Total Company Basis

The Department seeks clarification or correction of the Rate Case Order in light of Xcel's proposed calculation included in the Company's draft Compliance Filing – Preliminary Schedules filed in the Xcel Rate Case, Docket No. E002/GR-13-868 on April 24, 2015 ("Preliminary Financial Compliance Filing"). Xcel's incorrect calculation effectively would award the Company $2.1 million more for 2015 than the Commission appears to have allowed Xcel to recover from ratepayers.[13]

[13] This is an ongoing adjustment stepped down for depreciation over the remaining life of the plant.

The Commission, in the Monticello nuclear plant prudency review Order dated May 8, 2015 ("Monticello No-Return Order") in Docket No. E002/CI-13-754 required the following in its ordering paragraphs 2 to 4:[14]

> 2. The Commission finds that Xcel's handling of the Monticello LCM/EPU project was not prudent.
>
> 3. The Commission finds that Xcel's request for full recovery of the Monticello LCM/EPU project cost overruns is reasonable.
>
> 4. The Commission finds that no disallowance is necessary in this prudency review but that ***Xcel will not be allowed a return on the expenses exceeding the initial figures provided in its certificate-of-need filings, escalated to 2014 dollars.*** The reduction to the allowed return will be incorporated into Xcel's rate case, Docket No. E-002/GR-13-868.

Commission Staff Briefing papers in Docket No. E002/CI-13-754, which were referenced during the Commission's deliberations in that matter, calculated the cost overrun amount for which no return was allowed to be $333 million on a total Company basis ($246.1 million Minnesota jurisdictional) for 2015.[15]

In its Preliminary Financial Compliance Filing, however, the Company's adjustment reduced the rate base amount for the portion of the Monticello plant against which it applied no return, and did so by incorrectly assigning accumulated depreciation from past years to the no-return portion of the Monticello plant. As a result, Xcel reduced the sum that would be excluded

[14] *In the Matter of a Commission Investigation into Xcel Energy's Monticello Life-Cycle Management/Extended Power Uprate Project and Request for Recovery of Cost Overruns*, MPUC Docket No. E-002/CI-13-754, Order Finding Imprudence, Denying Return On Cost Overruns, And Establishing LCM/EPU Allocation For Ratemaking Purposes at 26 ("Monticello No Return Order") (emphasis added).

[15] Attachment A (Addendum to Staff Briefing Papers showing the approximate amount by which expenses exceed the initial figures provided in Xcel's certificate-of-need filings, escalated to 2014 dollars is $333 million, calculated on a total company basis and including Allowance for Funds Used During Construction or AFUDC). Attachment 1 was filed in edockets on May 7, 2015 in Docket No. E002/CI-13-754) (The Department sought clarification on May 28, 2015, that the Commission's order denying a return on capital cost overruns of $333 million relied on Footnote 1 of the Addendum to Staff Briefing papers for the approximate rate impact of what became the Commission's ultimate decision in that matter).

from its revenue requirement and, accordingly, increased the amount Xcel would recover from ratepayers.

To correct Xcel's errors, the Department recommends that depreciation expense and accumulated depreciation begin in 2015 (the Company's 2015 step year, when the Monticello EPU is expected to go into service) for the no-return portion of the Monticello plant. This recommended correction does not change the amount of depreciation expense recovered, as indicated by the Company is its Preliminary Financial Compliance Filing;[16] that is, this correction allows Xcel full recovery of all depreciation expense. However, this correction ensures that the Company will not earn a return from ratepayers on the $333 million amount on a total company basis ($246.41 million Minnesota jurisdictional) for 2015, consistent with the Commission's Monticello Order.

1. Xcel's Incorrect Preliminary Financial Compliance Filing

In its Preliminary Financial Compliance Filing, Xcel included a narrative description and its calculation of the Commission's Monticello prudency adjustment. On page 2 of 4 of the cover letter, the Company agreed that the Commission's May 8, 2015 Order permits a "return of", but not a "return on" the $333 million of the Monticello plant investment.

The Company stated that a full "return of" costs, by definition, represents depreciation. The Company indicated that depreciation expenses were not disallowed and these determinations were made on a total project basis, so that the Company applied a direct proration of the rate base associated with the total project to quantify the portion of the project's rate base earning zero rate of return. The Company claimed that its method is consistent with past practice in determining project investment costs and associated plant related rate base items in the calculation of rate base adjustments.

[16] Xcel's Preliminary Financial Compliance Filing at 2 of 4 of the cover letter.

In both Schedule A7 page 1 and on Schedule A8 pages 1 and 2 of its Preliminary Financial Compliance Filing, the Company included the calculations and resulting adjustment for no return on the Monticello nuclear plant cost overrun of $333 million total company. On Schedule A8 pages 1 and 2 the Company provided the detailed calculations for no return on $333 million total company ($246.41 million Minnesota jurisdictional using a 73.9969 percent allocator), which the Department notes is consistent with the 2015 step allocator for nuclear plant used in the Company's rate case in Docket No. E002/GR-13-868. The Department does not object to these calculations.

However, the Company then prorated the accumulated depreciation/depreciation reserve amount, which is the tracked amount of depreciation expense recorded for past years 2009 through 2014, and the current 2015 depreciation expense. The Department notes that this step is in error.

To understand the Company's calculation errors, it is important to recognize that depreciation expense is recorded by debiting depreciation expense for the annual amount recorded on the income statement, and crediting accumulated depreciation/depreciation reserve, which tracks the depreciation expense recorded to date and reduces the rate base/plant in-service balance by the cumulative amount already recovered through depreciation. By prorating the accumulated depreciation balance between the portion of Monticello plant that is allowed to earn a return and the portion that is not allowed to earn a return, the Company's adjustment comes up short; it fails to calculate the disallowance on the entire $333 million total company ($246.41 million Minnesota jurisdictional) for 2015, as the Commission's Monticello Order appears to have contemplated.

Instead, Xcel's adjustment reflects no return *on a lower average rate base amount* of $221.176 million total company or $163.663 million Minnesota jurisdictional[17] due to allowing accumulated depreciation/depreciation reserve to be allocated to the no-return portion of the plant for past years (2009 to 2014) accumulated depreciation/depreciation reserve; the past years accumulated depreciation/depreciate reserve is a result of the Monticello LCM part of plant going in-service in 2009 and 2011. The Company's adjustment would reduce the rate base amount for the Monticello no-return portion of plant by incorrectly assigning accumulated depreciation from past years and, thus, incorrectly reducing the amount of the Commission's disallowance (i.e., it would reduce the calculated effect of no return on the cost overruns that equal $333 million total company).

2. The Department's Recommended Clarification or Correction

The Department vigorously opposes Xcel's proration of accumulated depreciation/depreciation reserve to calculate the effect of earning no return on Monticello cost overruns. The Company's proposed methodology does not comport with the Department's understanding of the Commission's Monticello Order. Specifically, the Department recommends that all past depreciation expense recorded in accumulated depreciation/depreciation reserve for 2009 to 2014 be assigned to the portion of the Monticello plant for which Xcel *is allowed a return*, rather than be prorated between plant that receives a return on and plant that receives no return as Xcel proposes. The Department's recommended clarification of the May 8, 2015 Rate Case Order (or correction of Xcel's Preliminary Financial Compliance) does not change the amount of depreciation expense recovered; it allows for full recovery of all depreciation expense, and ensures that the Company does not earn a return on the

[17] See Xcel's April 24, 2015 Compliance Filing – Preliminary Schedules, Schedule A8 page 1 of 2 column (f) line 7.

$333 million total company ($246.41 million Minnesota jurisdictional) for 2015. The Department recommends that depreciation expense and accumulated depreciation begin in 2015 (the Company's 2015 step year) for the no-return portion of Monticello.

The Department asked the Company to provide a corrected calculation with the Monticello accumulated depreciation for years prior to 2015 assigned to the Monticello plant that earns a return. The Company's calculated adjustment for no return on Monticello is a $17.952 million reduction in its revenue requirement while the Department's corrected adjustment for no return on Monticello cost overruns is a $20.052 million reduction, which is a $2.1 million reduction in the Company's revenue requirement (an ongoing adjustment stepped down for depreciation over the remaining life of the plant).[18]

3. Conclusion

The Department's recommended correction is based on its understanding that the Commission intended for the Company to earn no return on the cost overrun amount of $333 million total company ($246.1 million Minnesota jurisdictional) for 2015. The Department urges the Commission to reject Xcel's proposed calculation that results in Xcel receiving no return on a sum less than the $333 million total company.[19] Xcel's calculation would result in a lower disallowance, or no return on a smaller amount than the $333 million that the Commission ordered in the Monticello prudency docket. The Department finds no support in the Commission's Monticello Order for Xcel's proposed increase in the revenue requirement effect of that Order.

[18] The Department has attached this calculation to these compliance comments as Attachment B.

[19] Xcel appears to argue that the Commission intended for the Company to earn no return on *less* than $333 million total company ($246.1 million Minnesota jurisdictional) for 2015 since Xcel *reduced* the $333 million by depreciation expense recorded in 2009 to 2014 on the Monticello LCM, that was reflected in accumulated depreciation, and did so on a prorated basis between the Monticello plant that is allowed to earn a return and the Monticello plant that is not allowed to earn a return.

To ensure that the Commission's Rate Case Order states clearly and accurately the ratemaking effect of its Monticello Order, the Department seeks clarification or correction of Rate Case Order consistent with the Department's requests, above, that rejects Xcel's erroneous accumulated depreciation calculation included in its Preliminary Financial Compliance Filing.

VI. CONCLUSION

For the reasons discussed, the Department respectfully requests reconsideration and approval of its recommended Passage of Time adjustment. The Department would not object to the Commission allowing Xcel's 2015 Step to include annualization of any 2014 non-Step projects not already included in the 2015 Step; however, this amount is expected to be small and this figure is not provided in the record.

The Department also requests that the Commission provide administrative direction for future rate cases regarding this issue, including:

- A directive that the Company must explicitly explain in Direct Testimony how the Company adjusts rates in years following the first year for the passage of time (both increased and decreased adjustments); and
- A requirement for clear calculations, including narrative, detailed calculations, well-labeled information, and support for how calculations tie out to rate case requirement requested by the Company.

Finally, the Department requests clarification that it is unreasonable for Xcel to reduce the rate base amount for the portion of the Monticello plant against which no return is to be applied (thereby decreasing the impact of earning no return) by incorrectly assigning accumulated depreciation from past years to the no-return portion of the Monticello plant.

Dated: May 28, 2015

Sincerely,

/s/ *Julia E. Anderson*

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Enclosures: Attachments A and B

Attachment A

Addendum to Staff Briefing Papers
Docket No. E-002/CI-13-754
Hearing Exhibit

MONTICELLO REMEDY TABLE

Party	*Proposed Remedy*	*2015 MN Jurisdiction Revenue Requirement Impact (In Millions)*
Xcel Energy	*No disallowance of overruns, no disallowance on return*	*$0.0*
Xcel Energy Alternative	*No disallowance of overruns, disallowance of basis points (100 basis points, for instance) (Note: Xcel did not propose 100 basis points, but simply offered it as an example)*	*$3.5*
DOC	*Disallow $84.445M ($71.42M - MN jurisdiction), based on 85/15 LCM/EPU allocation*	*$10.2*
DOC Alternative	*No disallowance of overruns, but limit return on overrun to weighted cost of debt (2.24%). (See Notes 1 & 2)*	*$17.0*
XLI	*After updating CN amount to 2014 dollars, no disallowance of overrun, but no return on overrun. (See Notes 1 & 3)*	$24.5
OAG	*Disallow 75% of overrun, no return on other 25% of overrun*	*$41.9*

Notes (all dollars in millions):

1. Revenue requirement impacts in this table are based on a **$333 million gap** between (a) the actual project cost plus AFDUC ($748), and (b) the initial project estimates in 2005 (LCM) and 2008 (EPU) expressed in 2014 dollars plus AFDUC ($415). **($748 - $415 = $333)**. (The 2005 LCM estimate was $135; escalated 4% per/yr., the 2014 dollar equivalent is $192. The 2008 EPU estimate was $133; escalated 4% per/yr., the 2014 dollar equivalent is $168. **(192 + 168 = $360) ($360 + $55 AFDUC = $415.)**

2. The Department's alternate position is similar that the one agreed upon in the current rate case regarding the Prairie Island abandoned costs. The record in this case does not specify a weighted cost of debt. 2.24% is Company's proposed cost of debt in its pending rate case.

3. XLI's revised position was introduced in oral argument based on the assumption that the combined project estimate in 2014 dollars was $453, resulting in an approximate $18.5 revenue requirement impact. The calculation in the table above reflects a $415 amount as the initial combined project estimate in 2014 dollars.

4. Except for Xcel's no disallowance position, all revenue requirement impact calculations will ultimately be affected by the rate case ROE decision. All amounts are based on Xcel's current ROE.

Attachment B

Docket No. E002/GR-13-868

Northern States Power Company
MONTICELLO LCM/EPU
Prudence Adjustment - Assuming $0 Beginning Balance on Accumulated Reserve for Depreciation
Amounts in $000s

		a		b		c = a + b		d		e = d - c		f	
		As-Filed 2014 Test Year		Used & Useful Adjustment		Remaining 2014 Level		As-Filed 2015 Level		Step Amount before No Return		No Return in 2015 on $333m	
			74.3399%		74.3399%		74.3399%		73.9969%		73.9969%		73.9969%
		Adjusted	After I/A	Adjusted	After I/A	Adjusted	After I/A	Adjusted	After I/A	Adjusted	After I/A	Adjusted	After I/A
	Rate Analysis	Total Co	MN Jur	Total Co	MN Jur	Total Co	MN Jur	Total Co	MN Jur	Total Co	MN Jur	Total Co	MN Jur
1	Plant Investment	605,591	450,196	(302,796)	(225,098)	302,796	225,098	718,163	531,418	415,368	306,321	(320,404)	(237,089)
2	RWIP	24,413	18,149	(12,207)	(9,074)	12,207	9,074	28,234	20,892	16,027	11,818	(12,596)	(9,321)
3	Plant plus RWIP											(333,000)	(246,410)
4	Depreciation Reserve w/o RWIP	70,106	52,116	(35,053)	(26,058)	35,053	26,058	114,962	85,069	79,910	59,010	(10,571)	(7,823)
5	CWIP	112,257	83,451	(56,128)	(41,726)	56,128	41,726	-	-	(56,128)	(41,726)	-	-
6	Accumulated Deferred Taxes	139,183	103,469	(69,592)	(51,734)	69,592	51,734	135,683	100,401	66,092	48,667	(75,377)	(55,777)
7		532,972	396,211	(266,486)	(198,105)	266,486	198,105	495,751	366,841	229,265	168,735	(247,051)	(182,810)
8													
9	Average Rate Base	532,972	396,211	(266,486)	(198,105)	266,486	198,105	495,751	366,841	229,265	168,735	(247,051)	(182,810)
10													
11	Debt Return	12,152	9,034	(6,076)	(4,517)	6,076	4,517	11,303	8,364	5,227	3,847	(5,608)	(4,150)
12	Equity Return	27,555	20,484	(13,777)	(10,242)	13,777	10,242	25,630	18,966	11,853	8,724	(12,600)	(9,323)
13	Current Income Tax Requirement	24,433	18,163	(12,217)	(9,082)	12,216	9,082	24,329	18,002	12,112	8,921	(8,890)	(6,579)
14													
15													
16	Book Depreciation	40,668	30,232	(20,334)	(15,116)	20,334	15,116	41,406	30,639	21,072	15,523	-	-
17	Annual Deferred Tax	(3,041)	(2,261)	1,521	1,130	(1,521)	(1,130)	(3,959)	(2,930)	(2,438)	(1,799)	-	-
18	ITC Flow Thru	-	-	-	-	-	-	-	-	-	-	-	-
19	Tax Depr & Removal Expense	30,015	22,313	(15,008)	(11,157)	15,008	11,157	28,598	21,162	13,591	10,005	-	-
20	AFUDC Expenditure	606	450	(303)	(225)	303	225	-	-	(303)	(225)	-	-
21	Avoided Tax Interest	66	49	(33)	(24)	33	24	-	-	(33)	(24)	-	-
22	Total Revenue Requirements	101,160	75,202	(50,580)	(37,601)	50,580	37,601	98,709	73,041	48,129	35,440	(27,098)	(20,052)

At Last Authorized

Capital Structure	**Rate**	**Ratio**	**Weighted Cost**
Long Term Debt	**5.0200%**	**45.3000%**	**2.2700%**
Short Term Debt	**0.6800%**	**2.1400%**	**0.0100%**
Preferred Stock	**0.0000%**	**0.0000%**	**0.0000%**
Common Equity	**9.8300%**	**52.5600%**	**5.1700%**
Required Rate of Return			**7.4500%**
PT Rate			
Tax Rate (MN)	**41.3700%**		

At Newly Authorized

Rate	**Ratio**	**Weighted Cost**
4.9400%	**45.6100%**	**2.2500%**
1.1200%	**1.8900%**	**0.0200%**
0.0000%	**0.0000%**	**0.0000%**
9.7200%	**52.5000%**	**5.1000%**
		7.3700%
41.3700%		