



Larkin Hoffman Daly & Lindgren Ltd.

1500 Wells Fargo Plaza
7900 Xerxes Avenue South
Minneapolis, Minnesota 55431-1194

GENERAL: 952-835-3800
FAX: 952-896-3333
WEB: www.larkinhoffman.com

October 14, 2014

The Honorable Jeanne M. Cochran
Office of Administrative Hearings
600 North Robert Street
P.O. Box 64620
St. Paul, Minnesota 55164-0620

*Via Electronic Filing
and U.S. Mail*

Re: *In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota*
MPUC Docket No. E-002/GR-13-868
OAH Docket No. 68-2500-31182

Dear Judge Cochran:

Enclosed and e-filed in the above-referenced matter please find the Reply Brief of the ICI Group.

By copy of this letter all parties have been served. An affidavit of service is also enclosed.

Sincerely,

/s/ Peder A. Larson

Peder A. Larson, for
Larkin Hoffman Daly & Lindgren Ltd.

Direct Dial: 952-896-3257
Direct Fax: 952-842-1765
Email: plarson@larkinhoffman.com

Enclosure

cc: Service List

**STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION**

<i>In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota</i>) _____))) _____	MPUC Docket No. E-002/GR-13-868 OAH Docket No. 68-2500-31182
---------------------------------------------------------------------------------------------------------------------------------------------------------------------	------------------------------	------------------------------------------------------------------------------

REPLY BRIEF OF THE ICI GROUP

October 14, 2014

By:

Peder A. Larson
Connor T. McNellis
LARKIN, HOFFMAN, DALY &
LINDGREN, LTD.
1500 Wells Fargo Plaza
7900 Xerxes Avenue South
Bloomington, MN 55431
(952) 835-3800
plarson@larkinhoffman.com

TABLE OF CONTENTS

INTRODUCTION 1

DISCUSSION..... 2

 I. XCEL’S PROPOSED RATE-OF-RETURN ON EQUITY 2

CONCLUSION 6

INTRODUCTION

On September 23, 2014, the ICI Group submitted its Initial Brief in these proceedings. In its Initial Brief, the ICI Group made the following recommendations:

1. Should the Commission choose to grant Northern States Power Company – Minnesota (“Xcel”) any rate increases, it should grant increases that are in line with the modest increases allowed in the 2005, 2008, 2010, and 2012 cases, in order to mitigate the “rate shock” felt by customers.
2. The Commission should deny Xcel’s proposed two-year rate increase and instead grant Xcel a one-time rate change that does not produce rate shock and which can be justified based on currently available data.
3. The Commission should disallow cost recovery from ratepayers for the cancelled Prairie Island EPU Project. Alternatively, if the Commission decides to allow recovery of these costs, the costs should be amortized over the original life of the proposed project, which is the 20 years remaining on the plant’s operating licenses. Additionally, the rate set by the Commission should reflect the nearly risk-free aspect of the abandoned project by setting the rate of return closer to a U.S. Treasury bill or bond interest rate.
4. The Commission should not authorize a return on equity (“ROE”) exceeding 9.0 percent. Additionally, Xcel should only be allowed to include common equity in its capital structure up to the actual amounts employed by the parent company, namely Xcel Energy, Inc.

The ICI Group made these recommendations on the basis that Xcel has failed to demonstrate, by a preponderance of the evidence, that the magnitude of its proposed multiyear rate increases would result in “just and reasonable rates” for consumers.¹ Xcel and the Department of Commerce (“Department”), along with all other parties to this proceeding, filed their initial briefs on September 23, 2014. This reply brief responds to issues raised by Xcel and the Department with regard to Xcel’s proposed ROE.

DISCUSSION

I. XCEL'S PROPOSED RATE-OF-RETURN ON EQUITY.

Xcel and the Department offered criticisms of Mr. Glahn's testimony in their initial briefs.² They criticize Mr. Glahn's (1) selection of a comparable group, and (2) his DCF analyses. Mr. Glahn's pre-filed testimony and his testimony at the evidentiary hearing show that these criticisms are not well-founded.

A. Mr. Glahn's Comparable Group is Reasonable.

Mr. Glahn explained in his direct testimony that companies "not expected by *Value Line* to enjoy earnings and/or dividend growth during the period studied were not considered" as part of his comparable group.³ This screen eliminated 13 companies.⁴ Both Xcel and the Department contend that many of these companies should not have been excluded because they are projected to enjoy earnings and/or dividend growth.⁵ This ignores reality in the sense that many of these companies have experienced negative earnings or dividends growth in the recent past.⁶ In modeling, certain judgment calls are

¹ Minn. Stat. § 216B.03 (2012).

² Xcel Energy Brief, Sept. 23, 2014, at 28-29; Initial Post Hearing Brief of the Minnesota Department of Commerce, Sept. 23, 2014, at 32-33.

³ Exhibit No. 250, Direct Testimony of William L. Glahn, at 17:11-18.

⁴ *Id.*, see also Exhibit No. 252, Response to Department of Commerce Information Request No. 205 (indicating that five of six other companies were screened because they would not experience positive earnings and/or dividend growth).

⁵ Exhibit No. 402, Rebuttal Testimony of Dr. Eilon Amit, at 5:10-6:3; Initial Post Hearing Brief of the Minnesota Department of Commerce, Sept. 23, 2014, at 32; Xcel Energy Brief, Sept. 23, 2014, at 28-29.

⁶ Exhibit Nos. 138, 139 (*Value Line*).

required in selecting companies to include in comparison groups—the record reveals that Mr. Glahn’s choices were reasonable.

At the evidentiary hearing, Mr. Glahn was cross-examined by the Department regarding the selection of companies in his comparison group.⁷ He was questioned regarding a *Value Line Investment Survey* regarding Ameren Company, Avista Corp., Edison International, Hawaiian Electric, IDACorp., Integrys Energy, Otter Tail Corp., PG&E Corp, and TECO Energy, which are companies that were eliminated from Mr. Glahn’s comparison group.⁸ As part of this exercise, Mr. Glahn was asked to read numbers on this survey which indicated positive expected earnings or dividends growth rates from 2011 through 2013.⁹ Throughout this exchange, Mr. Glahn indicated that all other numbers on the *Value Line* reports indicated negative actual or expected earnings and dividends growth rates for periods in the past ten years.¹⁰ Essentially, the Department’s cross-examination showed that the great weight of the financial evidence indicated that these companies have experienced negative growth trends for earnings and dividends in the recent past—they asked Mr. Glahn to read *only* the positive numbers on these reports. And as pointed out by Xcel, the times periods from which some of these

⁷ Evidentiary Hearing Transcript, August 13, 2014 (Day 3), at 117-135, Exhibit Nos. 138 & 139 (*Value Line*).

⁸ Evidentiary Hearing Transcript, August 13, 2014 (Day 3), at 118:23-119:6, 126:22-127:18.

⁹ *Id.* at 119:23-120:3, 122:2-4, 125:22-126:5, 127:20-24 , 134:7-10.

¹⁰ *Id.* at 120:4-6, 121:6, 122:13-24, 128:13-24, 129:15-131:13, 133:1-5, 134:11-15; *see also* Exhibit Nos. 138 & 139 (*Value Line*).

positive numbers were taken were “aberrant.”¹¹ Thus, it was reasonable for Mr. Glahn to ignore the sporadic positive numbers in the face of overwhelming negative numbers for projected or actual earnings or dividend growth for these companies.

Xcel and the Department did nothing more than summarily dismiss Mr. Glahn’s comparison group, when the record indicates that Mr. Glahn’s recommendations are based on the selection of a reasonable comparison group. The arguments of Xcel and the Department should be ignored and the Commission should consider Mr. Glahn’s analyses based on his reasonable comparison group.

B. Mr. Glahn’s DCF Analyses are Reasonable.

Xcel witness Mr. Hevert and Department witness Dr. Amit both took issue with Mr. Glahn’s DCF models.¹² Mr. Glahn’s direct testimony adequately explains the approach he took in conducting these analyses.¹³ The Commission should disregard these arguments because they are unfounded, and the criticisms of Mr. Hevert and Dr. Amit are not credible or reliable.

Flaws with the testimony of both Mr. Hevert and Dr. Amit were addressed in the ICI Group’s initial brief.¹⁴ The criticisms that Dr. Amit has of Mr. Glahn’s analyses can, at worst, be described as academic disagreements on how to run DCF models—and

¹¹ Xcel Energy Brief, Sept. 23, 2014, at 28-29.

¹² Exhibit No. 28, Rebuttal Testimony of Robert Hevert, at 33-45; Exhibit No. 402, Rebuttal Testimony of Dr. Amit, at 1-14.

¹³ Exhibit No. 250, Direct Testimony of William Glahn, at 18-24.

¹⁴ Initial Brief of The ICI Group, Sept. 23, 2014, at 13-14.

likewise, Mr. Glahn has valid criticisms of Dr. Amit's analysis.¹⁵ Most notably, both Dr. Amit and Mr. Hevert arbitrarily choose to ignore companies that have an ROE lower than eight percent.¹⁶ Such disagreements do not warrant the wholesale dismissal of Mr. Glahn's testimony or analyses. Mr. Hevert's testimony is also flagrantly self-serving and biased.¹⁷ For example, he based his criticisms on his assumption that Mr. Glahn only used a "single" DCF model, namely the "sustainable growth" model.¹⁸ In reality, Mr. Glahn used four models.¹⁹

Additionally, in its initial brief, Xcel gave several reasons why it is seeking a higher ROE. For example, Xcel implores the Commission not to "reduce ROE in the midst of significant investments in infrastructure and clean energy projects."²⁰ But a large amount of planned capital investment does not mean that Xcel deserves a higher ROE—rather, the ROE must be set at a "reasonable" level.²¹ Xcel also argues that interest rates are expected to rise, and therefore the Commission should err on the side of

¹⁵ Initial Brief of The ICI Group, at 13-14.

¹⁶ Exhibit No. 28, Rebuttal Testimony of Robert Hevert, at 35, 37-38; Exhibit No. 400, Direct Testimony of Dr. Amit, at 14-15; *see* Initial Brief of the ICI Group, at 13-14; Exhibit No. 251, Surrebuttal Testimony of William L. Glahn, at 5:14-17.

¹⁷ *See generally* Post-Hearing Brief of The Commercial Group, Sept. 23, 2014, at 6-8 (discussing Mr. Hevert's history of testifying to grossly-inflated ROE figures).

¹⁸ Exhibit No. 28, Rebuttal Testimony of Robert Hevert, at 33.

¹⁹ Exhibit No. 250, Direct Testimony of William Glahn, at 20-21.

²⁰ Xcel Energy Brief, Sept. 23, 2014, at 16.

²¹ *Hibbing Taconite Co. v. Minn. Pub. Serv. Comm'n*, 302 N.W.2d 5, 10 (Minn. 1980).

setting a higher ROE.²² Xcel chose to pursue a multiyear rate case, and Xcel should bear the interest-rate risk associated with such a decision. As outlined in the ICI Group's initial brief, the Commission should err on placing such risks on Xcel in a multiyear case, to avoid their receiving a substantial windfall should the market move in the other direction.²³ Such arguments indicate that Xcel is seeking higher ROE in the pursuit of higher profits.²⁴

The arguments raised by Xcel and the Department in their initial briefs are merely recitations meritless and should be disregarded. Mr. Glahn relied on reasonable assumptions and used reliable DCF models; his analyses should be strongly considered by the Commission in setting just and reasonable rates.

CONCLUSION

The ICI Group respectfully requests the Commission consider the foregoing arguments in determining just and reasonable rates for electric service for Xcel's customers, along with the ICI Group's recommendations in its initial brief.

²² Xcel Energy Brief, Sept. 23, 2014, at 19, 21.

²³ Initial Brief of The ICI Group, at 5-6; Exhibit No. 250, Direct Testimony of William L. Glahn, at 6:22-7:24.

²⁴ *See* Post-Hearing Brief of The Commercial Group, Sept. 23, 2014, at 9 (“In sum, the record evidence in this proceeding demonstrates that the 9.64 percent ROE recommendation of Mr. Amit is generally consistent with investor expectations, *and may in fact be overly generous toward NSP.*” (emphasis added)).

Dated: October 14, 2014

/s/ Peder A. Larson

Peder A. Larson

Connor T. McNellis

LARKIN, HOFFMAN, DALY & LINDGREN, Ltd.

1500 Wells Fargo Plaza

7900 Xerxes Avenue South

Bloomington, Minnesota 55431-1194

(952) 835-3800

Attorneys for The ICI Group

4814-4258-5375, v. 1

STATE OF MINNESOTA
OFFICE OF ADMINISTRATIVE HEARINGS
FOR THE PUBLIC UTILITIES COMMISSION

In the Matter of the Application of Northern
States Power Company for Authority to Increase
Rates for Electric Service in the State of
Minnesota

AFFIDAVIT OF SERVICE


MPUC Docket No. E-002/GR-13-868
OAH Docket No. 68-2500-31182

STATE OF MINNESOTA)
)ss.
COUNTY OF HENNEPIN)

Rachel Clark being duly sworn, says that on the 14th day of October, 2014 she served the following:

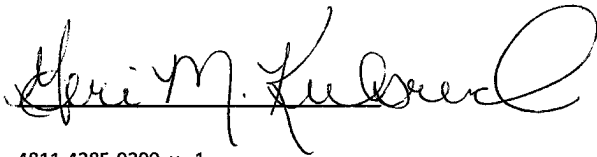
- Reply Brief of the ICI Group.

To all persons at the addresses listed on the attached list by filing through e-dockets.



Rachel Clark

Subscribed and sworn to before me
this 14th day of October, 2014



4811-4285-9290, v. 1



First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Jorge	Alonso	jorge.alonso@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_13-868_Official CC Service List
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_13-868_Official CC Service List
Alison C	Archer	alison.c.archer@xcelenergy.com	Xcel Energy	414 Nicollet Mall FL 5 Minneapolis, MN 55401	Electronic Service	Yes	OFF_SL_13-868_Official CC Service List
Andrew	Bahn	Andrew.Bahn@state.mn.us	Public Utilities Commission	121 7th Place E., Suite 350 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_13-868_Official CC Service List
Ryan	Barlow	Ryan.Barlow@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Bremer Tower, Suite 1400 St. Paul, Minnesota 55101	Electronic Service	Yes	OFF_SL_13-868_Official CC Service List
James	Canaday	james.canaday@ag.state.mn.us	Office of the Attorney General-RUD	Suite 1400 445 Minnesota St. St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_13-868_Official CC Service List
Aakash	Chandarana	Aakash.Chandara@xcelenergy.com	Xcel Energy	414 Nicollet Mall FL 5 Minneapolis, MN 55401	Electronic Service	Yes	OFF_SL_13-868_Official CC Service List
Jeanne	Cochran	Jeanne.Cochran@state.mn.us	Office of Administrative Hearings	P.O. Box 64620 St. Paul, MN 55164-0620	Electronic Service	Yes	OFF_SL_13-868_Official CC Service List
John	Coffman	john@johncoffman.net	AARP	871 Tuxedo Blvd. St. Louis, MO 63119-2044	Electronic Service	No	OFF_SL_13-868_Official CC Service List
Jerry	Dasinger	jerry.dasinger@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_13-868_Official CC Service List

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
James	Denniston	james.r.denniston@xcelenergy.com	Xcel Energy Services, Inc.	414 Nicollet Mall, Fifth Floor Minneapolis, MN 55401	Electronic Service	Yes	OFF_SL_13-868_Official CC Service List
Ian	Dobson	ian.dobson@ag.state.mn.us	Office of the Attorney General-RUD	Antitrust and Utilities Division 445 Minnesota Street, 1400 BRM Tower St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_13-868_Official CC Service List
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	Yes	OFF_SL_13-868_Official CC Service List
Stephen	Fogel	Stephen.E.Fogel@XcelEnergy.com	Xcel Energy Services, Inc.	816 Congress Ave, Suite 1650 Austin, TX 78701	Electronic Service	No	OFF_SL_13-868_Official CC Service List
Benjamin	Gerber	bgerber@mchamber.com	Minnesota Chamber of Commerce	400 Robert Street North Suite 1500 St. Paul, Minnesota 55101	Electronic Service	Yes	OFF_SL_13-868_Official CC Service List
Burl W.	Haar	burl.haar@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_13-868_Official CC Service List
Robert	Harding	robert.harding@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_13-868_Official CC Service List
Alan	Jenkins	aj@jenkinsatlaw.com	Jenkins at Law	2265 Roswell Road Suite 100 Marietta, GA 30062	Electronic Service	No	OFF_SL_13-868_Official CC Service List
Linda	Jensen	linda.s.jensen@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota Street St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_13-868_Official CC Service List

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Richard	Johnson	Rick.Johnson@lawmoss.com	Moss & Barnett	150 S. 5th Street Suite 1200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_13-868_Official CC Service List
Sarah	Johnson Phillips	siphillips@stoel.com	Stoel Rives LLP	33 South Sixth Street Suite 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_13-868_Official CC Service List
Clark	Kaml	clark.kaml@state.mn.us	Public Utilities Commission	121 E 7th Place, Suite 350 Saint Paul, MN 55101	Electronic Service	Yes	OFF_SL_13-868_Official CC Service List
Mara	Koeller	mara.n.koeller@xcelenergy.com	Xcel Energy	414 Nicollet Mall 5th Floor Minneapolis, MN 55401	Electronic Service	No	OFF_SL_13-868_Official CC Service List
Ganesh	Krishnan	ganesh.krishnan@state.mn.us	Public Utilities Commission	Suite 350121 7th Place East St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_13-868_Official CC Service List
Peder	Larson	plarson@larkinhoffman.com	Larkin Hoffman Daly & Lindgren, Ltd.	1500 Wells Fargo Plaza 7900 Xerxes Ave S Bloomington, MN 55431	Electronic Service	No	OFF_SL_13-868_Official CC Service List
John	Lindell	agorud.ecf@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_13-868_Official CC Service List
Susan	Mackenzie	susan.mackenzie@state.mn.us	Public Utilities Commission	Suite 350121 7th Place East St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_13-868_Official CC Service List
Peter	Madsen	peter.madsen@ag.state.mn.us	Office of the Attorney General-DOC	Bremer Tower, Suite 1800 445 Minnesota Street St. Paul, Minnesota 55101	Electronic Service	Yes	OFF_SL_13-868_Official CC Service List
Pam	Marshall	pam@energycents.org	Energy CENTS Coalition	823 7th St E St. Paul, MN 55106	Electronic Service	No	OFF_SL_13-868_Official CC Service List

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Mary	Martinka	mary.a.martinka@xcelenergy.com	Xcel Energy Inc	414 Nicollet Mall 7th Floor Minneapolis, MN 55401	Electronic Service	Yes	OFF_SL_13-868_Official CC Service List
Connor	McNellis	cmcnellis@larkinhoffman.com	Larkin Hoffman Daly & Lindgren Ltd.	1500 Wells Fargo Plaza 7900 Xerxes Avenue South Minneapolis, MN 55431	Electronic Service	No	OFF_SL_13-868_Official CC Service List
David	Moeller	dmoeller@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022093	Electronic Service	No	OFF_SL_13-868_Official CC Service List
Andrew	Moratzka	apmoratzka@stoel.com	Stoel Rives LLP	33 South Sixth Street Suite 4200 Minneapolis, MN 55402	Electronic Service	Yes	OFF_SL_13-868_Official CC Service List
Dorothy	Morrissey	dorothy.morrissey@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_13-868_Official CC Service List
Kevin	Reuther	kreuther@mncenter.org	MN Center for Environmental Advocacy	26 E Exchange St, Ste 206 St. Paul, MN 551011667	Electronic Service	Yes	OFF_SL_13-868_Official CC Service List
Richard	Savelkoul	rsavelkoul@martinsquires.com	Martin & Squires, P.A.	332 Minnesota Street Ste W2750 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_13-868_Official CC Service List
Janet	Shaddix Elling	jshaddix@janetshaddix.com	Shaddix And Associates	Ste 122 9100 W Bloomington Frwy Bloomington, MN 55431	Electronic Service	Yes	OFF_SL_13-868_Official CC Service List
Sean	Stalpes	sean.stalpes@state.mn.us	Public Utilities Commission	121 E. 7th Place, Suite 350 Saint Paul, MN 55101-2147	Electronic Service	Yes	OFF_SL_13-868_Official CC Service List

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
James M.	Strommen	jstrommen@kennedy-graven.com	Kennedy & Graven, Chartered	470 U.S. Bank Plaza 200 South Sixth Street Minneapolis, MN 55402	Electronic Service	No	OFF_SL_13-868_Official CC Service List
SaGonna	Thompson	Regulatory.Records@xcelenergy.com	Xcel Energy	414 Nicollet Mall FL 7 Minneapolis, MN 554011993	Electronic Service	Yes	OFF_SL_13-868_Official CC Service List
Kari L	Valley	kari.l.valley@xcelenergy.com	Xcel Energy Service Inc.	414 Nicollet Mall FL 5 Minneapolis, MN 55401	Electronic Service	Yes	OFF_SL_13-868_Official CC Service List
Samantha	Williams	swilliams@nrdc.org	Natural Resources Defense Council	20 N. Wacker Drive Ste 1600 Chicago, IL 60606	Electronic Service	No	OFF_SL_13-868_Official CC Service List
Patrick	Zomer	Patrick.Zomer@lawmoss.com	Moss & Barnett a Professional Association	150 S. 5th Street, #1200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_13-868_Official CC Service List