



414 Nicollet Mall
Minneapolis, MN 55401

February 3, 2014

—Via Electronic Filing—

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

RE: REPLY COMMENTS
2012 ANNUAL REVIEW OF REMAINING LIVES AND 2013 SUPPLEMENT
DOCKET NOS. E,G002/D-12-151 AND E,G002/D-13-1158

Dear Dr. Haar:

Enclosed for filing are the Reply Comments of Northern States Power Company, doing business as Xcel Energy, related to the Company's Petition for approval of our 2012 Review of Remaining Lives and 2013 Supplement.

We have electronically filed this document with the Minnesota Public Utilities Commission, and copies have been served on the parties on the attached service list.

Please contact me at lisa.h.perkett@xcelenergy or (612) 330-6950 if there are any questions regarding this filing.

Sincerely,

/s/

LISA H. PERKETT
DIRECTOR, CAPITAL ASSET ACCOUNTING

Enclosures
c: Service List

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	Chair
David C. Boyd	Commissioner
Nancy Lange	Commissioner
J. Dennis O'Brien	Commissioner
Betsy Wergin	Commissioner

IN THE MATTER OF THE PETITION OF
NORTHERN STATES POWER COMPANY
FOR APPROVAL OF THE CERTIFICATION
OF OUR 2012 REVIEW OF REMAINING
LIVES AND 2013 REMAINING LIVES
SUPPLEMENT

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

DOCKET NO. E,G002/D-13-1158

REPLY COMMENTS

OVERVIEW

Northern States Power Company, doing business as Xcel Energy, submits this Reply to the Comments of the Minnesota Department of Commerce, Division of Energy Resources on our October 1, 2013 filing presenting our 2013 Review of Remaining Lives. The Department recommended approval of our proposed service lives and salvage rates effective January 1, 2013, subject to the provision of additional information.

Specifically, the Department requested that we provide:

- additional information on the Wescott gas storage plant compressor equipment;
- a clarification and update on Minnesota Valley removal costs; and
- support for the change to the Black Dog Unit 5 net salvage rate.

We appreciate the Department's review of our filing and the opportunity to provide additional information in this Reply. Below we provide the requested information and confirm our agreement with two future filing requirements recommended by the Department.

REPLY

A. Wescott Gas Storage Plant

First as a correction, our October 2013 supplemental filing incorrectly identified the low boil system as the damaged component at the Wescott Gas Storage Plant. In fact, the damage was to the C301 feed gas booster compressor, which boosts the pressure of incoming natural gas to be liquefied.

The damage occurred in November 2012 during the startup of the plant after installation of the new compressor equipment. The startup was conducted by Xcel Energy employees under the supervision of a representative from the equipment manufacturer. The damage was the result of a gas inlet valve being opened out of sequence, which caused the compressor to rotate before bearings were lubricated. The damage resulting from the rotation of the dry bearings required replacement work to be completed at the manufacturer's facility.

Because the manufacturer was supervising the startup, the cost of the repair work was partially covered by the manufacturer. The Company incurred approximately \$62,000 in costs related to the repair of damaged equipment. These costs were considered an operating expense at the time they were incurred. None of the costs were added to the capitalized amount now being depreciated.

B. Minnesota Valley Removal Costs

In their Comments, the Department noted that the balance of cost of removal already collected, or negative net plant balance, decreased from \$8.1 million in our 2012 filing to \$4.9 million in our 2013 supplemental filing and assumed that this was the result of the Company recording some of the cost of removal already incurred. We confirm that this was the case. Approximately \$3.4 million of removal costs were recorded in 2012 and credited to the Minnesota Valley depreciation reserve balances, reducing the estimated future removal costs as shown in our October 2013 supplemental filing. These removal costs were primarily related to asbestos removal.

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

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

In our 2013 test year electric rate case (Docket No. E002/GR-12-961), the Commission approved a reallocation of reserve within the Steam Production function to the Minnesota Valley plant in order to cover all expected future removal costs. In compliance with the Commission's rate case order, we implemented that reserve reallocation based on the estimated removal costs in our rate case, which were the same as the costs presented in our 2012 remaining lives filing. Thus, the net plant balance of -\$4.9 million mentioned above became -\$21.2 million after this reallocation. The changes in net plant balance over 2013 are shown below.

	Plant	Reserve
Balance 12/31/2012	\$13,611,626	\$18,554,469
Plant Retirement	(\$80,845)	
Reserve Reallocation		\$16,202,275
Balance 12/31/2013	\$13,530,781	\$34,756,744
Net Plant 12/31/2013		(\$21,225,963)

By transferring reserve to the Minnesota Valley depreciation accounts, the future expected removal costs would be covered by reserve above and beyond the plant balance, and thus depreciation is no longer being calculated on these accounts. As costs of removal are incurred at the Minnesota Valley plant, the costs will be treated as a debit to the depreciation reserve, and the reserve balance will be reduced. At final retirement of the plant assets, if there is reserve in excess of the plant balance being retired, we plan to transfer this reserve to other steam production accounts.

C. Black Dog Unit 5 Net Salvage Rate

We are proposing a change in net salvage rates for both the steam and other production Black Dog units based on a reallocation of costs from our 2009 TLG Removal Cost Study, which was submitted in Docket No. E,G002/D-10-173. We note that this reallocation does not include the costs of remediating the coal pile and ash pond for the entire Black Dog plant as these costs are not part of the Cost Study.

The Cost Study showed a total cost of removal of \$37.3 million for the entire Black Dog plant. The Cost Study included common costs that could not be directly estimated to a specific unit. When common costs were allocated to each function, the steam production portion of Black Dog was assigned removal costs of \$23.8 million and the other production portion was assigned costs of \$13.5 million.

In the Cost Study, the allocation of common costs was based on comparing each unit's plant balance to the total facility plant balance. However, original plant cost is not a major driver in the cost of removal at the time of a plant's retirement, especially for units that are as old as Black Dog Units 3 and 4. In our 2013 electric rate case, we proposed to change the allocation of the Cost Study based on each unit's percentage of the total non-common costs. This basis of allocation better reflects the actual costs we expect will be incurred for each unit. Using this basis of allocation resulted in a removal cost estimate of \$33.4 million for steam production and \$3.9 million for other production. We note that this does not include the costs of the coal pile and ash pond remediation costs, totaling \$33.2 million, which are in addition to the costs estimated in the Cost Study.

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

Details of this calculation are shown in Attachment G to our October 2013 supplemental filing.

D. Filing Requirements

The Department recommended that we file our 2014 review of remaining lives by the end of February 2014 to ensure it can be considered in our pending electric rate case (Docket No. E002/GR-13-868). We agree with this recommendation. We are currently preparing our 2014 review of remaining lives and our intent is to submit the filing by the end of February 2014. As has been our general practice, we would update both our 2014 remaining lives filing and our pending rate case to reflect any changes required as a result of the Commission's decision in this 2013 remaining lives proceeding.

In addition, the Department recommended that in future electric production plant depreciation filings we continue to provide information and explanation for any differences between remaining lives in our depreciation filings and our resource plans. We have no objection to continuation of the Resource Plan Comparison filing requirement.

CONCLUSION

We appreciate the opportunity to provide additional information in these Reply Comments. We continue to request that the Commission approve our proposed service lives and net salvage rates effective January 1, 2013, as proposed in our October 1, 2013 supplemental filing.

Dated: February 3, 2014

Northern States Power Company

CERTIFICATE OF SERVICE

I, SaGonna Thompson, hereby certify that I have this day served copies of the foregoing document or a summary thereof on the attached lists of persons:

xx by depositing a true and correct copy or summary thereof, properly enveloped with postage paid, in the United States Mail at Minneapolis, Minnesota; or

xx via electronic filing

DOCKET No. E999/CI-13-542

Dated this 3rd day of February 2014

/s/

SaGonna Thompson

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