

The Commission met on **Friday, March 6, 2015**, with Chair Heydinger and Commissioners Lange, Lipschultz, Tuma, and Wergin present.

The following matters were taken up by the Commission:

ENERGY AGENDA

E-002/CI-13-754

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

Chair Heydinger moved to take the following actions:

1. Adopt the ALJ's Report, including his recommendations and memorandum, to the extent consistent with the decisions made by the Commission in this docket.
2. Find that Xcel's handling of the Monticello LCM/EPU Project was not prudent.
3. Find that Xcel's request for full recovery of the Monticello LCM/EPU Project cost overruns is reasonable.
4. Find that no disallowance is necessary in this prudence review; however, allow the Company to earn only a weighted short-term and long-term debt return (no equity) on the expenses exceeding the initial figures provided at the time of the submission of the certificate of need, escalated to 2014 dollars.
5. Make the following findings supplementing the ALJ's Report:

LCM/EPU Allocation

- a. Xcel's allocation of the \$664.9 million total Project costs¹ was \$146 million, or 22%, for the EPU and \$518.9 million, or 78%, for the LCM.²
- b. Department of Commerce allocation of the \$664.9 million total Project was \$569.5 million, or 85.7%, for the EPU and \$95.4 million, or 14.3%, for the LCM.³
- c. In 2008, Xcel filed a Certificate of Need⁴ that estimated total Project costs of approximately \$320 million - \$133 million, or 41.6%, for the EPU and \$189 million, or 58.4%, for the LCM⁵. In response to the Department's IR #94 in this

¹ Total does not include AFUDC.

² O'Connor Direct Testimony, Schedules 29 and 30.

³ Jacobs Direct Testimony at 11.

⁴ Docket No. E-002/CN-08-185.

⁵ Alders Direct Testimony at 21.

docket, the Company provided the following cost breakdown for the 2008 Certificate of Need:⁶

- Monticello LCM - \$135 million.
- Monticello EPU - \$133 million.
- Independent Spent Fuel Storage Installation (ISFSI) - \$55 million

In the same IR, Xcel confirmed that ISFSI costs have never been part of either the estimated or actual costs for the Monticello LCM/EPU Project.⁷

- d. If one followed Xcel's analysis, total EPU costs from 2008 until the Project was finished increased by 10% and total LCM costs from 2008 until the Project was finished increased by 175%.
- e. If one followed the Department's analysis, total EPU costs from 2008 until the Project was finished increased by 328% and total LCM costs from 2008 until the Project was finished *decreased* by 50%.
- f. These percentages would change if Xcel's updated amounts of \$170 million and \$189 million are used in the calculations.
- g. The results of both Xcel's and the Department's analysis of the allocation of the cost increases are not supported by the record and neither allocation is useful.
- h. Since Xcel has confirmed that the 2008 Certificate of Need Monticello LCM portion was \$135 million and the Monticello EPU was \$133 million, then the appropriate allocation of LCM/EPU should be 50% LCM and 50% EPU.

Project Management

- i. The Monticello plant was found to have more systems that needed work than the Company expected. This plant was originally constructed in the 1960s and the age and condition of many of its components contributed to the assessment of the level of LCM work that was needed.⁸
- j. Xcel provided information regarding the conditions encountered for various major sub-projects. These projects include the Condensate Demineralizer, Feedwater Heaters, Reactor Feed Pumps and Motors, Condensate Pump and Motor, 13.8 kV Distribution System, power range neutron monitoring system (PRNM), HP Turbine Replacement, Steam Dryer, and Transformers.⁹

⁶ Campbell Direct Testimony, Schedule 5.

⁷ *Id.*

⁸ O'Connor Rebuttal Testimony, Schedule 30.

⁹ *Id.*, Schedule 32.

- k. Xcel also provided historical estimated cash flows for the following items: a) Replacement of Feedwater Heaters - \$6 million total, b) Capital Projects under \$1 million - \$7 million annually, c) Replacement of the Feedwater & Main Steam Pipe - \$3.5 million, and d) 4kV Breaker Replacements - \$10 million.¹⁰
- l. The information Xcel provided shows what the Company did; however, once the initial decision to proceed was made, the record does not explain any alternatives available as decisions were made and the Project's scope changed, such as possible vendors, cost comparisons of equipment alternatives, etc.
- m. The information provided by Xcel lacks the transparency necessary to quantify the prudence of final costs.

Scoping and Planning and Project Management

- n. The Company stated that its pre-Certificate of Need costs included about \$60 million in progress payments to General Electric, mainly for detailed engineering and design work for the 2009 modifications.¹¹ In 2006, the total contract with General Electric, including costs to obtain the necessary NRC approvals, was \$129 million.
- o. The Company stated that the original \$274 million LCM/EPU Program authorization occurred within the Company's over \$2 billion capital authorization in 2006 and that, over the six-year period of time at issue, the Company had over \$5 billion of capital expenditures and over \$10 billion in operation and maintenance expenses. The Company believes that information gives perspective on the context in which decisions were made about individual capital projects,¹² including the Monticello project.
- p. Given the myriad of problems encountered throughout the project, despite a \$60 million up front expenditure largely for *detailed* engineering and design work, the Company failed to develop reasonable cost estimates.

Cost Overruns and Related Updates

- q. Adding to the ALJ's Findings of Fact #61, the Company stated that it did not believe that a Notice of Changed Circumstances required a discussion of costs.¹³
- r. The Company stated that emerging changes in Project costs were well known and had already been identified in the 2010 rate case (Docket E002/GR-10-971).¹⁴

¹⁰ *Id.*

¹¹ Alders Rebuttal Testimony at 29.

¹² Sparby Rebuttal Testimony at 25–26.

¹³ Alders Rebuttal Testimony, Schedule 1.

¹⁴ *Id.*

- s. The Company stated that it considered its options as costs increased and had executive-level discussions about how to move forward. These discussions involved Mr. Dennis Koehl (then Chief Nuclear Officer), Mr. Scott Wilensky (then VP of Regulatory and Resource Planning), and Mr. Timothy O'Connor (then Site VP of Monticello). The discussions explored: (1) the design and engineering challenges of moving forward with only life extension management; (2) the fact that certain equipment needed to be replaced and the costs and timing risks in light of the long lead times for equipment and the time to reanalyze and design work for the upgrades associated with a change in direction including potential NRC issues associated with changing course and the likely delay this could cause; (3) the difficulty in isolating power uprate work and associated costs that could be avoided because the 2007 design leveraged the need to replace aging equipment with designs and equipment sized to support both life extension and the power uprate; and (4) the cost effectiveness of the project based on general resource planning knowledge of natural gas costs, energy and capacity needs; previously modeled breakeven prices for nuclear uprates as well as consideration of the impact of sunk costs and the costs to change plans.¹⁵
- t. When the Company filed its 2010 rate case¹⁶, total project costs were estimated to be \$360 million. In that rate case's rebuttal testimony the Company updated total costs to \$399 million and by November 2011 the updated total costs had escalated to between \$550 and \$600 million.¹⁷ None of the information about the Company's analysis and choices were presented to the Commission for review or approval at the time of the Notice of Changed Circumstance.
- u. During the course of the 2010 rate case, total estimated project costs increased between \$190 and \$240 million.¹⁸
- v. While the Company did provide information on rising costs in its rate cases, the Company generally provided the information as a result of information requests during discovery and not initiated by the Company.
- w. Considering that Company knew that it would seek recovery of the cost overruns, the Company should have kept the Commission informed and given it the opportunity to timely review the increased expenditures and the reason for them.

Commissioner Lipschultz moved to amend the Chair's motion by replacing item 4 with the following language: "Find that no disallowance is necessary in this prudence review; however, do not allow a return on the expenses exceeding the initial figures provided at the time of the submission of the certificate of need, escalated to 2014 dollars."

¹⁵ *Id.*, Schedule 2.

¹⁶ Docket No. E-002/GR-10-971.

¹⁷ Alders Rebuttal Testimony at 16.

¹⁸ \$550 to \$600 million minus \$360 million

Commissioner Lipschultz's motion passed 3–2. Chair Heydinger and Commissioner Wergin voted against the motion.

As amended, Chair Heydinger's motion passed 5–0.

Chair Heydinger moved to take the following actions regarding claims-settlement funds:

1. So that ratepayers obtain the benefit of any such settlements, accept the Company's proposal to offset any claims or settlements it achieves against the cost of the Program.
2. Instruct Xcel to make a quarterly compliance filing updating all pending settlements related to the Monticello project. The filings should contain the following information:
 - An update for each claim
 - Settlement date or anticipated settlement date
 - Settlement amount
 - Proposed handling of any settlement funds
3. Require Xcel to make the initial filing no later than July 1, 2015.

The motion passed 5–0.

Chair Heydinger moved that the written order memorializing these decisions may rearrange, reorganize, or renumber the items included as necessary for clarity; standardize or correct abbreviations, phraseology, punctuation, and format; and correct errors as necessary for consistency with the Commission's decision and may amend the ALJ's findings as necessary to be consistent with the Commission's decision.

The motion passed 5–0.

At this point, Commissioner Lipschultz left the meeting, having recused himself from participating in Docket No. E-002/GR-13-868.

E-002/GR-13-868

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

Commissioner Wergin moved to take the following actions:

1. Determine that the Monticello EPU was not used and useful in 2014.
2. Determine that the 2014 depreciation expense and return on Monticello EPU should be excluded from the 2014 test year based on a 50% allocation to the EPU.

3. Allow Xcel to recover the EPU costs in the 2015 step and require Xcel to refund any excess amounts collected in rates (as a result of the in-service date) through the refund mechanism for the multi-year rate plan.
4. Authorize a two-year amortization period as requested by Xcel. In the event that Xcel does not file its next rate within the two-year time period, require Xcel to return any over-recovery to its customers when it files its next rate case.
5. Determine that the disallowance of the 2014 depreciation expense for the Monticello EPU is a permanent disallowance. The Company will be required to reduce CWIP by this amount or if the plant is shown as being included in plant in service, the disallowed depreciation expense will remain in the depreciation reserve, whichever is applicable. Xcel is required to make a compliance filing within 10 days of the Commission's Order in this docket providing the accounting entries and explaining how this permanent disallowance is reflected in its accounting records.
6. Defer consideration of the recovery of the Monticello prudency investigation costs until the 13-868 rate case oral arguments and deliberations scheduled for March 19 and 26. Require Xcel to make a filing by March 10, 2015 that provides a detailed listing of all the costs of the investigation including those in the \$950,000 and also the costs for the Commission, Department, ALJ and Court Reporter. Identify where the costs of the Commission, Department, ALJ and Court Reporter are included in the rate case. The costs for the consultants and outside law firms should be identified by consultant, consulting firm and law firm.
7. Determine that there exists an increased cost of fuel due to the Monticello facility's inability to produce power at 671 MW as planned. The amount of the increased cost, return to ratepayers, and recovery from ratepayers benefitting from the EPU output shall be determined in Xcel's Annual Automatic Adjustment filing.

The motion passed 4-0.

There being no further business, the meeting was adjourned.

APPROVED BY THE COMMISSION: April 22, 2015



Daniel P. Wolf, Executive Secretary