



STATE OF MINNESOTA

May 28, 2015

Mr. Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101

RE: In the Matter of a Commission Investigation into Xcel Energy's Monticello Life Cycle Management and Extended Power Uprate Project and Request for Recovery of Cost Overruns
MPUC Docket No. E002/CI-13-754
OAH Docket No. 48-2500-31139

Request for Commission Confirmation of its Reliance on Footnote 1 of the Addendum to Staff Briefing Papers (Monticello Remedy Table), Efiled on May 7, 2015 in MPUC Docket No. E-002/CI-13-754.

Dear Mr. Wolf:

The Minnesota Department of Commerce, Division of Energy Resources, Energy Regulation and Planning Unit ("Department") appreciates the thorough and detailed May 8, 2015, *Order Finding Imprudence, Denying Return On Cost Overruns, And Establishing LCM/EPU Allocation For Ratemaking Purposes* ("Monticello Order") of the Minnesota Public Utilities Commission ("Commission"). In its Monticello Order the Commission, among other things, appropriately denied recovery of a return on the amount of expenses of the Life-Cycle Management/Extended Power Uprate ("LCM/EPU") project at the Monticello nuclear power plant of Northern States Power Company d/b/a Xcel Energy ("Xcel" or "Company") "exceeding the initial figures provided in its . . . certificate-of-need filings, escalated to 2014 dollars."¹ The Department does not seek reconsideration; in fact, the Department fully supports the Commission's determination.

Rather, for purposes of clarity and to ensure accurate calculation of rate treatment associated with the Monticello Order in Xcel's rate case, MPUC Docket No. E-002/GR-13-868 (i.e., accurate calculation in Xcel's compliance filing), the Department respectfully requests that the Commission make clear that its denial of a return in the Monticello Order relied on the approximate calculation provided by Commission Staff in Footnote 1 of the Addendum to Staff Briefing Papers (Monticello Remedy Table) that was efiled in this matter on May 7, 2015. This Addendum is enclosed for convenience as Attachment A.

¹ Monticello Order at 26.

Of the factors included in Addendum Footnote 1, most helpful for accurate calculation of the rate treatment that results from the Monticello Order would be confirmation that the Monticello Order relied on the sum of about **\$333 million** as being a close approximation of the amount by which Xcel's final expenses exceeded the initial figures provided in the certificate-of-need filings, escalated to 2014 dollars.² The Monticello Order adequately identifies the other factors included in Footnote 1, either explicitly or implicitly.³ Addendum Footnote 1 reads, as follows:⁴

1. Revenue requirement impacts in this table are based on a **\$333 million gap** between (a) the actual project cost plus AFUDC (\$748), and (b) the initial project estimates in 2005 (LCM) and 2008 (EPU) expressed in 2014 dollars plus AFUDC (\$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 AFUDC = \$415**.)

Footnote 1 includes various factors that are supported by the record and that are needed to calculate approximately, and eventually with precision, the rate impact of the Monticello Order, as follows:

- the \$333 million amount by which Xcel's final project costs exceeded the initial figures provided in the certificate-of-need ("CN") filings, escalated to 2014 dollars;
- the amount of the initial estimated CN costs for the 2005 LCM (\$135 million) and 2008 EPU (\$133 million);
- a 4 percent escalation factor to reflect the initial CN estimates to 2014 dollars;
- inclusion of \$55 million in Allowance for Funds Used During Construction ("AFUDC") to the initial estimates; and
- the \$748 million final project costs of the LCM/EPU, in 2014 dollars, including AFUDC.

The Commission's deliberation discussion supports confirmation that the factors identified in Footnote 1 provided a close approximation of the estimated rate impact of what became the Commission's ultimate decision.⁵ The discussion explained the record basis for the factors in Footnote 1 such as inclusion of an additional year of cost escalation by 4 percent in order to reflect to 2014 dollars, rather than using the Department's escalation to 2013 and inclusion of AFUDC.⁶

² Xcel's April 24, 2015, draft Compliance Filing – Preliminary Schedules ("Preliminary Financial Compliance Filing") page 2 of the cover letter and Schedule A8 page 1 of 2 uses the \$333 million figure.

³ For example, the \$748 million final project costs of the LCM/EPU, including AFUDC (financing costs) is stated in the Monticello Order at 1 n.2, 7 and n.10, 21 and 22.

⁴ The Department corrected throughout the spelling of "AFUDC." (Emphasis in original).

⁵ Commission Video at 3:28:50 – 3:39:18 (March 6, 2015).

⁶ *Id.* at 3:30:48 – 3:31:44 and 3:32:38 – 3:35:40.

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Thus, the Department respectfully requests that the Commission make clear that its denial of a return in the Monticello Order relied on the approximate calculation provided by Commission Staff in Footnote 1 of the Addendum to Staff Briefing Papers (Monticello Remedy Table) that was filed in this matter on May 7, 2015.

Sincerely,

/s/Julia E. Anderson

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Enclosure: Attachment A

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.