

April 20, 2018

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E,G002/D-18-162

Dear Mr. Wolf:

Attached are the Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department), in the following matter:

Northern States Power Company's (Xcel or the Company) 2018 Annual Review of Remaining Lives.

The initial petition was filed on February 20, 2018 followed by a supplemental filing on March 15, 2018 to add an asset omitted from the initial filing. The initial and supplemental petitions were filed by:

Lisa H. Perkett
Principal Financial Consultant, Capital Asset Accounting
Xcel Energy
414 Nicollet Mall, 401 – 3rd Floor
Minneapolis, MN 55401

The Department recommends **approval**, and is available to answer any questions the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ CHARLES AMEVO
Financial Analyst

CA/lt
Attachment



Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E,G002/D-18-162

I. SUMMARY OF THE UTILITY'S PROPOSAL

On February 20, 2018, Northern States Power Company, doing business as Xcel Energy (Xcel or the Company), filed its 2018 Review of Remaining Lives Petition (Petition) with the Minnesota Public Utilities Commission (Commission). On March 15, 2018 the Company filed a supplemental petition to add additional information omitted in the initial filing. The Company is requesting approval of its proposed remaining lives, salvage rates, and depreciation rates for its electric and natural gas production facilities and gas storage facilities. Specifically, the Company requested:

- to make 1-year passage of time adjustments for the remaining lives for all electric and natural gas production and gas storage facilities; and
- to transfer heat recovery team generators within "Other Production Plant (FERC account 342 - Fuel Holders, Producers, and Accessories and FERC Account 344 – Generators) to FERC Account 343 – Prime Movers on the Other Production Black Dog Unit 5, High Bridge, and Riverside; and keep the same lives and net salvage rates for transferred Fuel Holders, Producers, and Accessories and Generators at each of the three plant locations.

Xcel requested that its proposed depreciation parameters and rates be approved effective January 1, 2018. The net effect of the proposed changes has no change in total company depreciation expense.

II. DEPARTMENT ANALYSIS

A. DEPRECIATION RULES

Minnesota Statutes Section 216B.11 and Minnesota Rules, parts 7825.0500-7825.0900 require public utilities to seek Commission approval of their depreciation practices. Utilities must also file depreciation studies at least once every five years and must use straight-line depreciation unless the utility can justify a different method. Annual depreciation study updates are required

when the remaining-life technique is employed to allow the Commission the opportunity to approve changes in depreciation rates.
After review, the Department concludes that Xcel's Petition complies with all applicable rules.

B. COMPLIANCE WITH PRIOR COMMISSION ORDERS

The Commission's February 8, 2018 Order (the 2017 Depreciation Order) in Docket No. E,G002/D-17-147 (the 2017 Depreciation Docket) required Xcel to:

- file its 2018 remaining life depreciation petition by February 19, 2018;
- continue to provide in future depreciation filings a comparison of depreciation remaining lives and resource planning lives for electric production assets with an explanation of any differences;
- continue to provide in future depreciation filings a historical comparison of changes in remaining lives and net salvage rates;
- continue to provide in future depreciation filings updates on removal costs for the Minnesota Valley plant, Key City Plant, Black Dog Units 3 and 4, including the impact on depreciation reserves, and a final true up when the retirement/removal is complete;
- file further details on its management of dismantling activities and costs, develop a method to compare its actual and projected removal costs to the cost estimates from its net salvage rate study, and provide a revised update for these costs and the depreciation reserve balance for Black Dog Units 3 and 4, the Key City Plant and the Minnesota Valley Plant;
- demonstrate in its next rate case and rider proceedings that there are no cost impacts to Minnesota ratepayers due to Xcel's accounting treatment of its theoretical reserve amortization.

The Company filed the following attachments in support to its Petition and in compliance to the 2017 Depreciation Order:

- Attachment A - Update: Summary of Proposed Remaining Lives (March 15, 2018 Supplement to Petition)
- Attachment B: Comparison of Present and Proposed Lives (February 20, 2018 Initial Petition)
- Attachment C: 2017 Plant In-Service (February 20, 2018 Initial Petition)
- Attachment D: 2017 Analysis of Depreciation Reserve (February 20, 2018 Initial Petition)
- Attachment E: 2017 Summary of Annual Depreciation Accruals (February 20, 2018 Initial Petition)

- Attachment F: Integrated Resource Plan Comparison (February 20, 2018 Initial Petition)
- Attachment G: Historical Comparison of Changes to Remaining Life (February 20, 2018 Initial Petition)

After review, the Department concludes that Xcel's Petition reasonably complied with the February 8, 2018 Depreciation Order.

C. ANALYSIS OF PROPOSED CHANGES TO REMAINING LIVES AND SALVAGE RATES FOR ELECTRIC PRODUCTION FACILITIES

1. Transfer of assets from FERC Accounts 342 and 344 to FERC Account 343

Xcel proposed to move assets (heat recovery steam generators) they have been capitalizing to FERC Account 342 – Fuel Holders, Producers, and Accessories and FERC Account 344 – Generators to FERC Account 343 – Prime Movers. Xcel stated that historically, the FERC Account - 343 has not been used by Northern States Power Company – Minnesota (NSP-MN) and for better classification the Company is proposing to transfer the assets previously capitalized to FERC Account 342 and FERC Account 344 to FERC Account 343. Xcel indicated that the transferred assets will retain the same accounting attributes with the same remaining lives and net salvage rates as approved in the Commission's February 08, 2018 Order. The Department reviewed the account characteristics of all three FERC Accounts (342, 343 and 344) and concludes that the requested transfer appears reasonable.

2. Remaining Lives and Salvage Rates

Xcel proposed to adjust all currently approved remaining lives by one year to reflect the passage of time and leave all currently approved salvage rates unchanged. The Department concludes that Xcel's proposals are reasonable.

D. UPDATES ON REMOVAL COSTS

As noted above, the Commission's February 8, 2018 Order in the 2017 Depreciation Docket, required Xcel to "file further details on its management of dismantling activities and costs, develop a method to compare its actual and projected removal costs to the cost estimates from its net salvage rate study, and provide a revised update for these costs and the depreciation reserve balance for Black Dog Units 3 and 4, the Key City Plant and the Minnesota Valley Plant."¹

¹ Docket E, G-002/D-17-147 Order Approving Depreciation Lives and Salvage Rates and Setting Additional Requirements.

Xcel compared the dismantling costs shown in TLG Services Inc.'s (TLG)² Dismantling Study with the Company's internal estimates.

The Department summarizes below the information provided by Xcel in compliance with Commission-ordered reporting requirements in the 2017 Depreciation Docket.

1. Minnesota Valley

The Company provided an update on removal costs for Minnesota Valley on page 8 - 9 of its Petition. The Company stated that the dam removal efforts have been completed but the remediation process still needs to be completed and that the Company is not far enough along in the process of plant demolition to have detailed estimates available for comparison. Xcel also stated that it believes the Minnesota Valley cost estimate presented by TLG in the 2015 remaining life docket (Docket No. E,G002/D-15-46) is reasonable, and has no variance to address at this time.

2. Black Dog Units 3 and 4

The Company provided an update on removal activity at Black Dog Units 3 and 4 on pages 6 - 8 of its Petition. Xcel estimated that dismantling of the Steam Production Black Dog units will cost \$65.5 million. Xcel stated that over the life of the two units, it collected \$30.9 million for general dismantling activities. An additional \$33.2 million is being collected over 15 years for coal yard remediation with another \$1.5 million above the original TLG estimate for the Unit 2 Boiler removal.

The Table 1³ on page 8 of the Company's initial Petition shows how Xcel's internal removal cost estimates for Steam Black Dog compared to the TLG estimates. The comparison by line item in Table 1 referenced above shows some significant variances between the estimates but in total, the variances do not reveal a pattern of over- or under-estimates. Xcel explained the most significant differences, noting that coal yard remediation is expected to cost less due to the differences in the labor market between the time of the estimate and the time of the contracts. Xcel's higher estimate related to boiler work relates to the additional effort required so that certain structures can continue to be used to support the remaining Other Production function. Finally, Xcel indicated that scrap values are currently about half of what they were at the time of the TLG Study.

² Xcel contracted with TLG Services, Inc. in 2014 to provide a dismantling study on all steam, hydro, and other production electric generating plants. See page 10 of the initial petition in Docket No. E,G002/D-15-46.

³ Docket E, G-002/D-18-162 Initial filing page 8 Table 1: Comparison of Steam Black Dog Removal Estimates.

3. *Key City*

The Company provided an update on removal costs for Key City plant on page 9 - 10 of its Petition. The Company indicated that it intends to maintain the Key City facility in a dormant state to support continued operations of the Granite City facility up to the date that the Granite City is retired and Xcel does not expect initial dismantling activities to start sooner than mid-2019. The Company believes that the Key City cost estimate presented by TLG in 2015 remaining life filing is reasonable, and has no variances to address at this time.

The Department notes that Xcel's summary is consistent with the Company's description in the 2017 Depreciation Docket, which the Commission accepted.

4. *Conclusion*

The Department concludes that Xcel complied with the Commission's directive to provide an update of the Company's dismantling effort and costs, and that the Company's information appears reasonable. The Department recommends that the Commission continue to require Xcel to provide details on its management of dismantling activities and costs, compare its actual and projected removal costs to the cost estimates from its net salvage rate study, and provide a revised update for these costs and the depreciation reserve balance for Black Dog Units 3 and 4, the Key City Plant and the Minnesota Valley Plant in future depreciation filings.

III. CONCLUSION AND RECOMMENDATIONS

After review, the Department concludes that Xcel's Petition is reasonable and recommends that the Commission approve it. The Department's recommendations will result in no increase in total-company depreciation expense.

The Department recommends that the Commission:

- approve Xcel's proposed depreciation lives and salvage rates for its electric production, gas production, and gas storage facilities;
- require Xcel to file its next remaining life depreciation petition by February 18, 2019;
- require Xcel to continue to provide in future depreciation filings a comparison of depreciation remaining lives and resource planning lives for electric production with an explanation of any differences;
- require Xcel to continue to provide in future depreciation filings a historical

- comparison of changes in remaining lives and net salvage rates; and
- require Xcel to continue to provide in future depreciation filings updates on removal costs for the Minnesota Valley Plant, Key City Plant and Black Dog Units 3 and 4, including the impact on depreciation reserves, and a final true-up when the retirement/removal is completed.

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