

Lein, Jerry R.

From: Shea, Bria E [bria.e.shea@xcelenergy.com]
Sent: Friday, December 12, 2008 9:24 AM
To: Lein, Jerry R.
Subject: Information Request: Case No. PU-07-776
Attachments: NDPSC 10-01.pdf

Dear Mr. Lien:

Please see the attached information request 10-1. This replaces the information request that Dave Sederquist sent last night.

Regards,

Bria E. Shea
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Government and Regulatory Affairs
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107 PU-07-776 Filed: 12/12/2008 Pages: 3
**Email Regarding and Response to Information
Request 10-1 Requested at 12-5-08 Work Session**

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Xcel Energy

Case No.: PU-07-776

Response To: North Dakota Information Request No. 10-1
Public Service Commission

Analyst: Jerry Lein

Received: December 9, 2008

Question:

During the December 5th working session the Commission requested that the parties address the following questions:

1. Based on 2008 results so far, what would be a reasonable estimate of total asset based sales margins for the 2008 test year?
2. If the Commission were to decide that asset based sales margins should be credited to customers through base rates rather than the fuel cost adjustment, then what amount should be included in test year revenue requirements as representative of future margin expectations?
3. Please provide an annualization of staff's recommended disallowance for the High Bridge plant that includes costs for a full 12 months of service instead of the four months during the test period as recommended by staff. When did High Bridge come on line and how many months of operating costs are included in the as-filed test period?

Response:

1. The current forecast of 2008 asset-based margins for Northern States Power Company –Minnesota ("NSPM") is \$39.2 million. Of this, the North Dakota jurisdictional amount is \$1.9 million.
2. Determining a representative level of asset-based wholesale margin credits to include in base rates is difficult because of an increasingly complex, competitive, and volatile wholesale energy market. When a certain amount of wholesale margin credits are fixed in base rates, additional risk is created for both Xcel Energy and our North Dakota customers. In other words, if actual margins for a given year are less than the test year level that has been used to set rates, the Company would not recover the

cost of service established in the rate case. If actual margins exceed the test year level, then customers do not benefit at all from the margins over and above the test year amount. The Company's incentive under base rate treatment of margins is to be as conservative as possible in projecting wholesale sales for a given test year. Historical sales experience is not particularly useful because of the relatively recent changes and volatility of the wholesale markets. In addition, as MISO becomes more efficient and participants in MISO more experienced, we expect that asset margins are likely to decline. This expectation is supported by our experience in 2008, where actual asset-based margins of \$1.9 million were less than the 2008 forecast of \$2.1 million.

It is more appropriate, given the current wholesale environment, to pass actual asset-based margins to customers as they occur, preferably in a "win-win" style sharing of margins that aligns the interests of both customers and the Company.

3. Since High Bridge was scheduled to go on-line on May 1, 2008, eight months of costs, or \$1,548,000, are included in the 2008 test year in this case. Annualizing the costs of High Bridge adds another \$774,000 to this test year amount for a total of \$2,322,000. Disallowing the annualized costs of High Bridge that exceed the \$669,000 of annualized costs for the alternate coal plant option would result in a decrease of the test year amount by \$1,653,000. The net adjustment of adding \$774,000 to the test year and subtracting \$1,653,000 is a decrease in the test year amount of \$879,000.

However, it should be noted that the High Bridge plant included in the test year increased the company's generating capacity 272 mw over the alternative plant option. An additional cost, estimated to be \$942,000, for replacing the capacity from High Bridge that was allocated to North Dakota in the test year through a reallocation of other system capacity must be added to the test year as well.

Thus, on an annualized basis, the staff disallowance of High Bridge costs exceeding the alternative plant should result in an overall increase to the test year of \$63,000.

Sponsor:

Response By: David H. Sederquist

Title: Sr. Regulatory Consultant

Department: North Dakota Jurisdictional Management

Telephone: 701.241.8632

Date: 12/11/2008