



August 18, 2009

VIA ELECTRONIC
AND U.S. MAIL

Darrell Nitschke
Executive Secretary and Director of Administration
North Dakota Public Service Commission
State Capitol
600 East Boulevard, Dept 408
Bismarck, ND 58505-0480

RE: COMPLIANCE FILING
ELECTRIC RATE INCREASE APPLICATION
Case No. PU-07-776

Dear Mr. Nitschke:

Enclosed, please find a Compliance Filing for Northern States Power Company, a Minnesota corporation operating in North Dakota (“Xcel Energy” or the “Company”) in the above referenced proceeding. This filing is being provided per the Settlement Agreement filed on December 29, 2008 and approved by the North Dakota Public Service Commission (the “Commission”) in its *Order Adopting Settlement* dated December 31, 2008 (the “Order”).

On March 3, 2009, we submitted to the Commission copies of the Nuclear Plant Decommissioning Accrual (Docket No. E002/M-08-1201) and the Annual Review of Remaining Lives (Docket No. E,G002/D-09-160) which were filed with the Minnesota Public Utilities Commission (“MN PUC”). In 2008, we provided the Commission a copy of the 2008 Transmission, Distribution and General Depreciation Study. We realize, however, that we have not yet submitted copies of the subsequent MN PUC Orders in these dockets, and so we now provide the following:

- MN PUC Order issued September 22, 2008
Transmission, Distribution and General Depreciation Study 2008, Docket No. E,G002/07-1528
- MN PUC Order issued June 12, 2009,

Nuclear Decommissioning: Docket No. E002/M-08-1201

- MN PUC Order issued July 1, 2009,
Annual Review of Remaining Lives, Docket No. E,G002/D-09-160.

Please contact me at 701-241-8632, if you have any questions regarding this filing.

Sincerely,

A handwritten signature in blue ink that reads "David H. Sederquist". The signature is written in a cursive style.

DAVID SEDERQUIST
SR. REGULATORY CONSULTANT

Enclosures

c: Service List

CERTIFICATE OF SERVICE

I, Carole Wallace, hereby certify that I have this day served copies of the foregoing document on the attached list of persons by causing to be placed in the U.S. mail at Minneapolis, Minnesota.

Case No. PU-07-776

Dated this 18th day of August 2009

/s/

Carole Wallace

In the Matter of the Application By Northern
States Power Company, A Minnesota
Corporation, for Authority to Increase Rates for
Electric Service
6-29-2009

Darrell Nitschke
Director of Administration/Exec Secretary
North Dakota Public Service Commission
600 East Boulevard, Dept. 408
Bismarck, ND 58505-0480

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BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

David Boyd
J. Dennis O'Brien
Phyllis Reha
Thomas Pugh
Betsy Wergin

Chair
Commissioner
Commissioner
Commissioner
Commissioner

Teresa S. Madden
Vice President and Controller
Northern States Power Company
414 Nicollet Mall
Minneapolis, MN 55401

SERVICE DATE: **SEP 22 2008**

DOCKET NO. E,G-002/D-07-1528

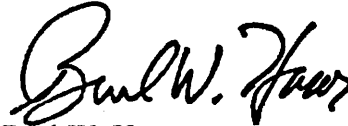
In the Matter of a Request by Northern States Power Company, a Minnesota Corporation for Approval of Xcel Energy's Transmission, Distribution, and General Depreciation Study 2008

The above entitled matter has been considered by the Commission and the following disposition made:

Approved Xcel Energy's proposed lives, salvage values, and resulting depreciation rates effective January 1, 2008.

The Commission agrees with and adopts the recommendations of the Office of Energy Security which are attached and hereby incorporated in the Order.

BY ORDER OF THE COMMISSION



Burl W. Haar
Executive Secretary

(S E A L)

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January 14, 2008

Burl W. Haar
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
Docket No. E,G002/D-07-1528

Dear Dr. Haar:

Attached are the *Comments* of the Minnesota Department of Commerce (Department) in the following matter:

A Request by Northern States Power Company, a Minnesota Corporation (Xcel Energy or the Company) For Approval of Xcel Energy's Transmission, Distribution, and General Depreciation Study 2008.

The petition was filed on December 3, 2007. The petitioner is:

Teresa S. Madden
Vice President and Controller
Northern States Power Company
414 Nicollet Mall
Minneapolis, Minnesota 55401

The Department recommends that the Minnesota Public Utilities Commission (Commission) **approve** Xcel Energy's proposed lives, salvage rates, and resulting depreciation rates effective January 1, 2008. The Department is available to answer any questions that the Commission may have.

Sincerely,

/s/.MICHELLE ST. PIERRE
Financial Analyst

MS/sm
Attachment



BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE

DOCKET NO. E,G002/D-07-1528

I. SUMMARY OF XCEL ENERGY'S PROPOSAL

On December 3, 2007, Northern States Power Company, a Minnesota corporation (Xcel Energy or the Company) filed a *Petition* for the Minnesota Public Utilities Commission's (Commission) certification pursuant to Minn. Stat. §216B.11 and Minn. R. 7825.0500 through 7825.0900 of its five-year Transmission, Distribution, General plant, and Common accounts¹ 2007 depreciation study for its electric and gas utilities.

The current lives and depreciation rates for these assets were approved by the Commission in Docket Nos. E,G002/D-03-162 (effective January 1, 2003) and E,G002/D-03-1939 (effective January 1, 2004 for Transportation Equipment, accounts 392 and 396).² The Commission's March 14, 2003 *Order Certifying Depreciation Rates and Methods*³ required Xcel Energy to file its five-year depreciation study by September 1, 2007. On August, 15, 2007, Xcel Energy requested a three-month extension to December 3, 2007 which was granted by the Commission in its September 6, 2007 *Order* in Docket No. E,G002/D-07-1103.

Xcel Energy uses the Average Service Life (ASL) technique for Transmission, Distribution, and General Structures and Improvements and the Vintage Group (VG) accounting for General plant accounts⁴ to calculate straight-line depreciation accruals, as required by Minn. R. 7825.0800. For this study, the Company proposes to adjust the lives if factors such as market forces, manufacturer expected life, technological obsolescence, business planning, known causes of retirement, and changes in expected future utilization affected the useful life of the asset.⁵

¹ Common property does not have distinctions outside of General property. *Petition*, page 3.

² Prior to 2004, the Company leased Transportation Equipment.

³ Docket No. E,G002/D-03-162.

⁴ The Commission extended the use of the vintage group to include the Distribution plant line transformers, capacitors, and meters for electric and meters and house regulators for gas. *Petition*, page 10.

⁵ *Petition*, page 4.

For each proposed change, the Company provides an explanation and the effect of the change on the depreciation accrual. Additionally, Xcel Energy provides Schedules A through J including a comparison of present and proposed depreciation rates and accruals as of January 1, 2007, its simulated plant record and net salvage analysis, and a comparison of the actual and theoretical depreciation reserve. Further, the Company states, "The analysis included interviews with operating personnel responsible for purchase, maintenance, and utilization of the equipment."⁶

Minnesota Rule 7825.0700 requires that material future additions and retirements be identified. Xcel Energy "does not anticipate at this time any major future addition or retirement in the Electric, Gas, or Common Utility plant accounts that would materially affect the depreciation rates recommended in this study."⁷

Xcel Energy concludes:

The study concluded that most service lives and net salvage rates were still adequate. The majority of the changes centered on a few accounts within each functional category. The overall recommendation is an increase of \$2,055,021 mostly generated by the shortening of the service life for both electric and gas meter accounts.⁸

The Company requests the effective date of this change to be January 1, 2008.⁹

II. DEPARTMENT ANALYSIS

The Department's analysis includes the following sections:

- filing requirements;
- depreciation proposals including the effective date;
- present verses proposed depreciation expense; and
- additional information provided in the filing.

A. *FILING REQUIREMENTS*

This filing is Xcel Energy's five-year depreciation study. The Commission requires utilities to file five-year studies when the depreciation rates do not change yearly as a result of using the ASL or VG accounting for calculating depreciation rates. The Company previously filed its five-year depreciation study in 2003; the next five-year depreciation study is due September 1, 2012.

⁶ Ibid.

⁷ Ibid.

⁸ *Petition*, page 1.

⁹ *Petition*, page 2.

Minnesota Rule 7825.0700 requires the following depreciation schedules and documentation:

- plant in service;
- analysis of depreciation reserve;
- summary of annual depreciation accruals;
- accounts studied and results;
- major future additions or retirements; and
- any additional documentation necessary to support findings of the study.

The Department’s review confirms that the Company substantially complied with the filing requirements in Minnesota Rule 7825.0700.

B. DEPRECIATION PROPOSALS

1. Proposed Changes in Average Service Life Depreciation Study

Based on Xcel Energy’s analysis as contained in the ASL study, the Company proposes the changes to the lives and net salvage values shown in Table 1.¹⁰

Table 1: Proposed ASL Study Changes

		Current Average Life	Proposed Average Life	Current Salvage Value	Proposed Salvage Value	Annual Percent Change
Electric Utility-Transmission						
354	Towers and Fixtures	46	50			-0.22%
355	Poles and Fixtures	38	45			-0.45%
366	Underground Conduit	47	50			-0.13%
367	Underground Conductors and Devices	38	35			0.18%
373	Street Lighting and Signal Systems	18	25			-1.87%
Electric Utility-Distribution						
369	Overhead and Underground Services			(30.0)	(35.0)	0.13
Gas Utility-Transmission						
369	Measure and Regulating Station Equipment			(20.0)	(25.0)	0.16%
Gas Utility-Distribution						
378	Measure and Regulating – General			(20.0)	(25.0)	0.16%
379	Measure and Regulating – City Gate			(20.0)	(25.0)	0.16%
Common General						
390	Structures and Improvements- Leasehold Improvements	45	9.5			8.30%

¹⁰ The data in Table 1 is taken from Xcel Energy’s Schedule B.

Overall, regarding these proposed changes, Xcel states that its analysis:

... warranted extending service life in the electric transmission towers and fixtures and transmission poles and fixtures property areas. The electric distribution function analysis also warranted changes to extend service life in underground conduit and street lighting, and shortening the life for underground conductor and devices. Common structures & improvements-leased also required a shortening of life to match the initial lease agreement.

The account analysis within the net salvage rates reflects an overall trend to increase the negative net salvage percent. The electric distribution overhead and underground services, as well as gas transmission and distribution measuring and regulating station equipment are trending toward an increase in negative net salvage.¹¹

The Company proposes no changes to the current lives and net salvage rates for the remainder of ASL equipment. Xcel Energy uses the semi-actuarial method called Simulated Plant Record (SPR) to develop the average service life. For all ASL accounts with a proposed life change, the Company's Schedule D, *Life Analysis – Simulated*, contains the corresponding simulated data table. Additionally, Xcel Energy's Schedule E, *Net Salvage Analysis*, contains the net salvage trend analysis for all accounts where a salvage change is proposed.

For the life changes other than for *Common General Structures and Improvements-Leasehold Improvements* (Account 390), the Company's proposals are supported by its SPR analysis and interviews with company personnel.

Since the last depreciation study, the Company has entered into a lease agreement and has relocated company employees to the Marquette Plaza in downtown Minneapolis.¹² For Account 390, the Company proposes to recover the cost of leasehold improvements over the initial term of the lease.¹³ Xcel Energy states that the current 45-year ASL is too long but the recovery for depreciation for 2007 will be at this life.¹⁴ Further, the Company states that since the lease began July 1, 2006, the remaining period on the lease, without extensions is 8.5 years as of January 1, 2008.¹⁵ Thus, Xcel Energy proposes recovering the investment in Leasehold Improvements for Marquette plaza over 8.5 years.¹⁶

¹¹ *Petition*, page 5.

¹² *Petition*, page 8.

¹³ *Petition*, page 8.

¹⁴ *Petition*, pages 8 and 9.

¹⁵ *Petition*, page 8.

¹⁶ Energy's Schedules A, page 3, and B, page 3, show 9.5 years proposed for Account 390 rather than 8.5 years. According to Company personnel, 9.5 years was used in the Company's Schedules A and B, since the January 1, 2007 plant balance is used to determine the accrual change in Schedule C.

Xcel Energy notes that although the Account 390 assets reside on the accounting books of Northern States Power Company, a Minnesota corporation and a subsidiary of Xcel Energy, the depreciation expense for the Common General accounts is allocated to all the legal entities within Xcel Energy and not incurred entirely by the Company.¹⁷ Thus, the proposed annual expense increase of \$96,611 included in its Schedule C will be something less for each utility. The Department concludes that a service life of 8.5 years based on the initial lease term appears reasonable.

For the salvage value changes proposed, Xcel Energy's proposals are supported by its salvage analysis.

The Department reviewed Xcel Energy's SPR and salvage studies and concludes that the Company's proposals for ASL plant are supported by the record and appear to be reasonable.

2. Proposed Changes in Vintage Group Depreciation Study

The Vintage Group is where the largest changes in the 5-year study take place. Based on Xcel Energy's analysis as contained in the VG study, the Company proposes the changes to the lives and salvage values shown in Table 2.¹⁸

Table 2: Proposed Vintage Group Study Changes

		Current Vintage Life	Proposed Vintage Life	Current Salvage Value	Proposed Salvage Value	Annual Percent Change
Electric Utility-Distribution						
370	Meters	20	15			1.67%
Gas Utility-Distribution						
381	Meters	25	20			1.15%
383	House Regulators (Old)	45	20			3.06%
Electric, Gas, and Common General						
391	Office Furniture and Equip.			5	0	0.28%
393	Stores Equipment			5	0	0.25%
397.2	Communication & Telecomm. Equip.-AMR	9	15			-4.44%

Xcel proposes no changes to the current lives and net salvage rates for the remainder of VG equipment. The VG method is applicable to high volume, low cost assets. The use of this method does not capture retirement information. Therefore, the analysis of useful life in this study is based on the forecast method to develop the service life.¹⁹ Department Attachment 1

¹⁷ *Petition*, page 9.

¹⁸ The data in Table 2 is taken from Xcel Energy's Schedule B.

¹⁹ *Petition*, page 10.

contains the Company's net salvage trend analysis for all VG accounts where a salvage change is proposed.²⁰

For electric Distribution-Meters (Account 370), Xcel Energy proposes to bifurcate the electric meter account into two sub-accounts: 1) integrated meters (Account 370) with automatic meter-reading module (ARM) and 2) meters without an ARM device (Account 370.1, Electric Meters-Old²¹).²² Additionally, the Company proposes to reduce the life of Account 370 from 20 to 15 years since the life of the integrated meters will be closely tied and most likely driven by the useful life of the ARM controls and technology.²³ Further, "the controls are integral to the meter itself, such that if the controls were to be replaced, the meter would be replaced as well."²⁴ According to Xcel Energy, estimates of the service lives are between 7 to 15 years for the ARM components exposed to the extremes of weather which represents a more dominant retirement factor for meters with electronic controls.²⁵

Additionally, since the ARM modules contained with the meter are used as a communication device, the ARM component for the electric and gas equipment is recorded in General Plant-Communication & Telecommunication Equipment-ARM (Account 397). For Account 397, Xcel Energy proposes to segregate the ARM module in Account 397.2, Communication Equipment – ARM from the rest of the communication equipment which has a nine-year life. Further, the Company proposes a 15-year life for Account 397.2 for the electric and gas utilities.

For gas Distribution-Meters, (Account 381), Xcel Energy states that the communication module for the gas meter is not integral to the meter and does not present the same influential impact on the depreciable life as the component did to the electric meter.²⁶ However, the Company's interviews with personnel indicated that it is becoming less cost effective to replace a failed module only and the meter would most likely be replaced when the module is replaced.²⁷ Thus, Xcel Energy proposes to reduce the life of Account 381 from 25 to 20 years. Additionally, the Company proposes to align the amortization period of the house regulators installed before 1997 (Account 383) with the proposed 20-years life of Account 381.

For the salvage value changes, Xcel Energy's proposals are supported by its salvage analysis.²⁸

The Department reviewed Xcel Energy's forecast and salvage studies and concludes that the Company's proposals for VG plant are supported by the record and appear to be reasonable.

²⁰ The Company provided its analysis after the Department noticed it was not in the filing and informally requested the salvage studies for the VG accounts.

²¹ Xcel Energy proposes no change to the 20-year life of Account 370.1.

²² By 2010, most Company electric and gas meters will have an ARM module. *Petition*, pages 11 and 12.

²³ *Petition*, page 11.

²⁴ *Ibid.*

²⁵ *Petition*, pages 11 and 12.

²⁶ *Petition*, page 12.

²⁷ *Ibid.*

²⁸ See Department Attachment 1.

3. *Effective Date of Depreciation Rates*

Xcel Energy requests that the effective date for its proposed depreciation rates be set at January 1, 2008. This date is five years since the date when the Company's depreciations rates were last implemented, January 1, 2003, in Docket No. E,G002/D-03-162. Thus, the proposed January 1, 2008 implementation date is reasonable.

C. *PRESENT VERSUS PROPOSED DEPECIATION EXPENSE*

Based on Xcel Energy's proposed adjustments, the overall estimated annual depreciation impact for the electric utility would be an increase of \$602,312. The overall estimated annual depreciation impact for the gas utility would be an increase of \$1,265,277. The overall estimated annual depreciation impact for the common utility would be an increase of \$187,433. These changes are shown in Table 3 below and would be recognized by Xcel Energy as a change in depreciation expense for financial statement purposes beginning in 2008, but would not impact current rates.

Table 3: Summary of Impacts by Utility and Study

Study	Electric Utility	Gas Utility	Common Utility	Total
Average Life	\$(704,683)	\$25,722	\$96,611	\$(582,350)
Vintage Group	<u>\$1,306,995</u>	<u>\$1,239,555</u>	<u>\$90,822</u>	<u>\$2,637,371</u>
Total	\$602,312	\$1,265,277	\$187,433	\$2,055,021

D. *ADDITIONAL INFORMATION PROVIDED*

1. *Theoretical Reserve Analysis*

Xcel Energy analyzed the difference between the actual and theoretical depreciation reserves for its ASL plant, (Company Schedule F). The Company concludes that the difference between the actual and theoretical depreciation reserves at January 1, 2007 has grown further apart since the last depreciation filing but the deviations and trends are acceptable.²⁹ The Department agrees.

2. *Asset Retirement Obligation (ARO)*

Although no AROs were recognized for the assets presented in this study, Xcel Energy provides its Schedule J, *ARO Account Balance*, for informational purposes. The Company explains that within the distribution property analysis there were numerous small obligations and in the general structures area the Company recorded an ARO associated with asbestos mainly in the General Office at 414 Nicollet Mall.³⁰ Further, Xcel states "This obligation has decreased since

²⁹ *Petition*, page 16.

³⁰ *Ibid*.

initial recognition due to the decision to retire and remove the asbestos from the General Office.”³¹

III. DEPARTMENT CONCLUSION AND RECOMMENDATION

Based on its review, the Department concludes that the proposed lives, net salvage values, and resulting depreciation rates are supported by the record and appear to be reasonable. Therefore, the Department recommends that the Commission approve Xcel Energy's proposed lives, salvage values, and resulting depreciation rates effective January 1, 2008.

/sm

³¹ Ibid.

Xcel Energy
 1997 - 2006 Analysis Net Salvage Percent
 Vintage Group
 Electric Utility

Electric			
FERC Acct 391: General Office Furn & Equipment			
Year	Retirements	Net Salvage	Percentage
1997	0	8,301	-
1998	0	0	-
1999	158,432	0	0.00%
2000	0	1,250	-
2001	0	0	-
2002	0	0	-
2003	102,809	0	0.00%
2004	173,148	0	0.00%
2005	878,542	0	0.00%
2006	0	0	-
10 Year Average	131,293	955	0.73%

Gas			
Year	Retirements	Net Salvage	Percentage
1997	0	0	-
1998	0	0	-
1999	0	0	-
2000	0	0	-
2001	0	0	-
2002	0	0	-
2003	0	0	-
2004	0	0	-
2005	0	0	-
2006	314	0	0.00%
10 Year Average	31	0	0.00%

Common			
Year	Retirements	Net Salvage	Percentage
1997	0	1,685	-
1998	0	0	-
1999	1,075,520	375	0.03%
2000	0	-33,962	-
2001	0	0	-
2002	11,807	0	0.00%
2003	784,169	0	0.00%
2004	685,962	7,700	1.12%
2005	0	12,781	-
2006	0	353	-
10 Year Average	255,746	-1,107	-0.43%

Total All Utilities			
Year	Retirements	Net Salvage	Percentage
1997	0	9,986	-
1998	0	0	-
1999	1,233,952	375	0.03%
2000	0	-32,712	-
2001	0	0	-
2002	11,807	0	0.00%
2003	886,978	0	0.00%
2004	859,110	7,700	0.90%
2005	878,542	12,781	1.45%
2006	314	353	112.42%
10 Year Average	387,070	-152	-0.04%

FERC Acct 393: General Stores Equipment

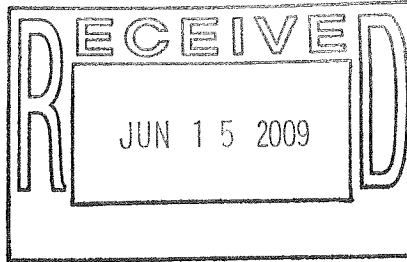
Year	Retirements	Net Salvage	Percentage
1997	0	0	-
1998	0	0	-
1999	0	0	-
2000	0	0	-
2001	0	0	-
2002	2,370	0	0.00%
2003	262,619	0	0.00%
2004	122,766	0	0.00%
2005	0	0	-
2006	0	0	-
10 Year Average	38,776	0	0.00%

Year	Retirements	Net Salvage	Percentage
1997	0	0	-
1998	0	0	-
1999	0	0	-
2000	0	0	-
2001	0	0	-
2002	0	0	-
2003	125,531	0	0.00%
2004	51,469	0	0.00%
2005	69,759	0	0.00%
2006	165,198	0	0.00%
10 Year Average	41,196	0	0.00%

Year	Retirements	Net Salvage	Percentage
1997	0	0	-
1998	0	0	-
1999	0	0	-
2000	0	0	-
2001	0	0	-
2002	2,370	0	0.00%
2003	388,150	0	0.00%
2004	174,235	0	0.00%
2005	69,759	0	0.00%
2006	165,198	0	0.00%
10 Year Average	79,971	0	0.00%

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

David C. Boyd
J. Dennis O'Brien
Thomas Pugh
Phyllis A. Reha
Betsy Wergin



Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of Northern States Power
Company d/b/a Xcel Energy 2009 Nuclear
Plant Decommissioning Accrual

ISSUE DATE: June 12, 2009

DOCKET NO. E-002/M-08-1201

ORDER APPROVING DECOMMISSIONING
PLAN, AS MODIFIED, AND REQUIRING
REFUND PROPOSAL

PROCEDURAL HISTORY

On October 13, 2008, Xcel Energy (Xcel or the Company) filed a Petition requesting Commission approval of its 2009 Nuclear Plant Decommissioning Accrual. The Company stated that its filing was submitted in compliance with the Commission's Order in Docket No. E-002/D-86-604 to review nuclear decommissioning financial parameters, funding methodology, and the cost estimate every three years, and in accordance with Minn. Rules, Parts 7825.0500 through 7825.0800.

On December 12, 2008, the Minnesota Office of Economic Security (the OES) filed comments recommending approval with modifications.

On December 22, 2009, Xcel filed reply comments recommending that the Commission approve the Company's Petition. The Company stated that its recommendation for the Monticello plant was directly aligned with the OES's recommendation and argued that the proper accrual period extension to be used for the Prairie Island units was, as the Company initially proposed, three years.

The Commission met to consider this matter on May 7, 2009.

FINDINGS AND CONCLUSIONS

I. Background

The Commission first addressed the nuclear decommissioning question independently of normal depreciation methods in an Order issued February 26, 1981 in Docket E-002/D-79-956. Subsequently, the Commission has decided to review the decommissioning costs and financial parameters approximately every three years.

Xcel's two nuclear generating plants are the subject of its decommissioning planning. The Monticello Nuclear Generating Plant has been operating since September 8, 1970 under a license which, due to recent re-licensing approvals, is set to expire in 2030. The second plant, Prairie Island Nuclear Generating Plant - Units 1 and 2, is operated under licenses which expire on August 9, 2013 for Unit 1 and on October 29, 2014 for Unit 2.

The primary objective of a decommissioning docket is to arrive at a reasonable estimate of what it will cost to decontaminate and remove the nuclear facilities at the end of the operating lives of the nuclear plants. Once an estimate of what it will cost to decommission at the end of operations is established, the Commission attempts to calculate the amount of expense to accrue annually to accumulate a fund sufficient to pay the decommissioning costs when incurred. The Commission historically has been concerned that rates charged for current production reflect the expected cost to decontaminate and decommission the facilities, spread over the expected lives of the plants.

II. Xcel's Current Triennial Decommissioning Filing

Xcel stated that the decommissioning accrual for 2009, if calculated under the parameters established in the March 23, 2006 Order in Docket E-002/M-05-1648, would be approximately \$32 million. Xcel proposed modified criteria to produce a decommissioning accrual of \$7,504,099 for Prairie Island Units 1 and 2 and, since sufficient funds have been accumulated to decommission the Monticello plant based on current studies, a zero annual accrual for that plant.

Specifically, Xcel proposed increasing the estimated decommissioning costs to \$2.37 billion in 2008 dollars, reducing the escalation rate from 3.61 percent to 2.89,¹ increasing the earnings rate from 5.4 percent to 6.3 percent,² assuming decommissioning accruals for three years beyond the current expiration dates for the Prairie Island units, and increasing the estimated cost of the fuel remaining "unburned" in each reactor at shutdown from \$49 million to \$141.9 million.³

Xcel also proposed that the funds currently held in the special escrow account for Monticello be refunded to customers over two years in a manner to be determined. The escrow amount was identified as approximately \$18 million as of June 30, 2008.

¹ The escalation rate is the rate at which decommissioning costs are estimated to increase each year. The decommissioning costs estimated in 2008 dollars are multiplied by the escalation rate to produce the expected cost at the time decommissioning actually occurs.

² The earnings rate is based on an estimate of the interest income that will be earned on the total decommissioning funds accrued to date.

³ Because the end-of-life fuel funds are held internally at Xcel, the Company's annual accrual amount for this fuel will earn Xcel's rate of return. Xcel proposed that the accrual amounts will be adjusted to reflect the return authorized in the currently pending Xcel electric rate case, E-002/GR-08-1065.

Finally, the Company included its annual analysis of premature decommissioning and requested that the requirement of an annual update on that subject be amended to be required in years when full nuclear decommissioning are to be completed and only when material changes to the risks or mitigating coverage for these risks take place. The Company stated that an investigation of premature decommissioning risk would continue to be provided in the Company's triennial nuclear decommissioning filings.

III. The OES's Comments and Recommendations

A. Xcel's Report Regarding Asset Retirement Obligation (SFAS 143) for Decommissioning

The OES reviewed Xcel's Asset Retirement Obligation (ARO) accounting for nuclear decommissioning. The OES stated that Xcel's balance sheet accounts relating to decommissioning pursuant to Statement of Financial Accounting Standards No. 143 (SFAS 143) are reasonable and give a helpful big picture overview of the estimated decommissioning liability and funds available to pay for decommissioning in the future. The OES recommended that the Commission require Xcel to provide year-end 2010 balance sheet accounts for SFAS 143 in its next triennial decommissioning filing.

B. Decommissioning Funds Available Today

The OES stated that the first step in determining the total revenues necessary for decommissioning is to determine the amount of funds currently set aside. Based on its review, the OES agreed with Xcel's theoretical balance method and agreed with the Company's calculations that the total amount currently available for decommissioning is \$960,245,047, the sum of \$346,881,950 for the Monticello unit, \$291,854,730 for Prairie Island - Unit 1 and \$321,508,367 for Prairie Island - Unit 2.

C. Earnings Rate

The OES stated that the second step to determine the revenues necessary for decommissioning is to determine an estimated earnings rate (or interest rate) for the funds set aside for decommissioning in the future. The OES found that Xcel's proposed earnings rate of 6.3 percent, which is based on an equity/bond split of 60 percent equity and 40 percent bonds, was reasonable and recommended that the Commission approve it.

D. Estimated Decommissioning Costs

In reviewing Xcel's decommissioning cost estimates, the OES extensively examined 1) the new estimate by Xcel's consultant, TLG Services, Inc. (TLG), the Nuclear Regulatory Commission's (NRC's) minimum cost calculation, and 3) Xcel's proposed escalation rate of 2.89 percent. The OES concluded that Xcel's estimate of the spending that will occur in each future year is reasonable.

E. Estimated Retirement Date for Xcel's Three Nuclear Generating Units

1. Monticello Unit

The original operating license set to expire on September 10, 2010 has been approved for extension to 2030. The OES agreed with Xcel that the estimated retirement date for the Monticello unit, therefore, should be 2030.

2. Prairie Island Units 1 and 2

The original operating licenses for Prairie Island Units 1 and 2 are set to expire on August 9, 2013 and October 29, 2014 respectively. Depending upon decisions that will be made regarding Xcel's certificate of need application to the Commission⁴ and 20-year license renewal application to the NRC, the shut down date (retirement date) for the two units could be either 2013 and 2014 or 2033 and 2034.

After extensive analysis, the OES disagreed with Xcel's recommendation that the retirement dates used to calculate the annual decommissioning accrual for these units should be 2016 for Unit 1 and 2017 for Unit 2. Instead, the OES recommended that the retirement dates used to calculate the annual decommissioning accrual for these units should be 2023 for Unit 1 and 2024 for Unit 2.

The OES observed that it could have recommended that the Commission not go beyond what is currently known for certain. Under this approach, the OES stated, the correct recommendation would be 2013/2014, the current shut-down/license expiration dates. The OES noted, however, that the annual accrual calculated using that approach would significantly overfund decommissioning if Xcel's currently pending request for a 20-year license extension is ultimately approved.

Based on its analysis, which took into consideration information regarding, for example, Prairie Island from past resource planning dockets, the Commission's decisions regarding Monticello, and the U.S. Nuclear Regulatory Commission's decisions regarding other license extension requests, the OES recommended that the Commission assume a 2023/2024 shutdown date in calculating the decommissioning accrual for the Prairie Island units.

F. Calculating the Decommissioning Accrual for the Three Units

The OES explained that once the nominal dollar costs, the currently available funds, the earnings rate on funds set aside, and the retirement date are known the requisite annual decommissioning accrual can be estimated.

As to the Monticello unit, the OES agreed with Xcel on all the relevant inputs and also agreed with the Company's conclusion that no annual accrual is needed. In addition, the OES agreed with Xcel that the decommissioning funds accrued for the Monticello unit exceed the need. The OES recommended that the Commission approve Xcel's proposal to refund the surplus in the accessible escrow account.

⁴ Docket No. E-002/CN-08-510.

Regarding the Prairie Island units, however, using the OES's recommended longer lives for these units, the OES's calculation differed from the Company's. Having calculated a 63 percent probability rate that the license extension requests will be granted, the OES concluded that it would be reasonable to assume an additional ten years to the recovery period. Assuming a recovery period extended by ten years, therefore, the OES concluded that the amount currently accrued, growing at the estimated earnings rate (rate of interest), would be sufficient to meet the anticipated decommissioning costs for the Prairie Island units and therefore proposed a zero accrual for them.

G. End-of-Life Nuclear Fuel Accrual

The OES noted that in addition to the annual accrual to fund decommissioning, Xcel has requested determination of an accrual for end-of-life nuclear fuel. The OES explained that the purpose of this accrual is to recover the expense associated with the unused nuclear fuel at the time of reactor shutdown.

The OES reviewed Xcel's calculations and explanations and concluded that they are reasonable given the Company's assumptions. However, as explained above, the OES recommended a life of 2023 and 2024 for the Prairie Island units for decommissioning purposes. The OES stated that applying its longer lives to the end-of-life nuclear fuel accrual reduces the accrual for Prairie Island from \$3.37 million to \$1.37 million.

The OES recommended that, since the accrual for Monticello's end-of-life nuclear fuel is also \$1.37 million, the Commission approve a combined accrual for the Monticello and Prairie island units of \$2.74 million on a total company basis or approximately \$2 million for the Minnesota jurisdiction.

H. Risk of Premature Decommissioning

In its first decommissioning Order in Docket No. E-002/D-79-956,⁵ the Commission noted that funding mechanisms established to accrue funding adequate to defray the cost of decommissioning that occurred at the end of the plants' expected lives would be insufficient to meet a premature decommissioning. The Commission ordered the Company to investigate methods of reducing this risk and to report annually. Since then, the Company has filed an annual report on this subject.

In its current filing, Xcel supplied its annual report on the risk of premature decommissioning but also requested that the annual requirement be removed. Instead, Xcel proposed that the update only be required in years when full nuclear decommissioning is to be completed and only when material changes to the risks or mitigating coverage for these risks take place. Xcel stated that it would continue to provide an investigation of premature risk in the triennial nuclear decommissioning filings.

The OES agreed with Xcel's request and recommended that the Commission approve Xcel's proposal.

⁵ *In the Matter of the Petition of Northern States Power Company for Depreciation Certification for Expected Decommissioning Costs for the Monticello and Prairie Island Nuclear Steam Generating Facilities*, Docket No. E-002/D-79-956.

Based upon its review of Xcel's past annual nuclear decommissioning updates and the OES's recommendation, the Commission will approve the Company's request, with the clarification that the Company will continue to be required to file a premature decommissioning report as part of its triennial nuclear decommissioning filings.

IV. The Commission's Analysis and Action

As indicated previously, Xcel and the OES have reached similar conclusions and made the same recommendations regarding most of the issues raised in this matter. Based on its review and analysis, the Commission finds that these conclusions and recommendations are reasonable and will adopt them.

Regarding the shut down/retirement dates of the two Prairie Island units to be assumed for purposes of calculating annual decommissioning accrual and end-of-life nuclear fuel accrual, the Commission finds that the OES's approach is preferable. It helps ensure that customers who use power from the Prairie Island units pay a fair share of the costs, based on what is known at this time.

The Commission clarifies that setting the current decommissioning accrual at \$0 is not a denial of recovery. The Company's decommissioning needs will be fully funded. If unit life-extension is not achieved, the accrual can be adjusted to recover any remaining amount in the applicable time period.

ORDER

1. The Commission approves a decommissioning plan for the Monticello and Prairie Island nuclear units based on the following factors:
 - a. a 2.89 percent cost escalation rate;
 - b. a 6.30 percent Earnings Rate on External Accounts
 - c. an assumed 2030 end-of-life date for decommissioning accrual for the Monticello unit; and
 - d. an assumed 2023 plant end-of-life date for decommissioning accrual for Prairie Island unit 1 and an assumed 2024 plant end-of-life date for decommissioning accrual for Prairie Island unit 2.
2. Within 60 days of this Order, Xcel shall file a proposal for refunding the surplus from the escrow account for the Monticello unit.
3. Xcel shall file its triennial nuclear decommissioning filing on or before October 11, 2011.
4. Xcel shall include in its next triennial nuclear decommissioning filing the December 31, 2010 balance sheet accounts for SFAS 143.

5. With respect to the previously ordered annual report regarding risk of premature decommissioning, the Commission hereby grants Xcel's request to require updating of the risks of nuclear decommissioning at times when material changes occur in the risk or in the risk mitigating coverages. The Commission clarifies, however, that Xcel will continue to be required to provide an investigation of premature risk in its triennial nuclear decommissioning filings.
6. The Commission hereby approves an end-of-life fuel accrual of approximately \$2 million from the Company's Minnesota ratepayers, a figure which assumes a 2023 (unit 1) and 2024 (unit 2) decommissioning time period for Prairie Island, with the clarification that \$2 million figure is subject to updating to reflect the rate of return approved in Xcel's current rate case, Docket No. E-002/CN-08-510.
7. Within 30 days of this Order, Xcel shall file for compliance purposes updated schedules of calculations reflecting the Commission's decisions herein.
8. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mark E. Oberlander for

Burl W. Haar
Executive Secretary

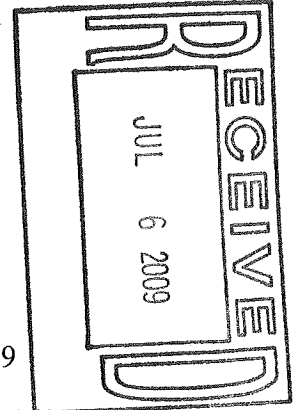
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BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

David Boyd
J. Dennis O'Brien
Phyllis Reha
Thomas Pugh
Betsy Wergin

Chair
Commissioner
Commissioner
Commissioner
Commissioner



Lisa H. Perkett
Director, Capital Asset Accounting
Xcel Energy Services, Inc.
414 Nicollet Mall, 4th Floor
Minneapolis, Minnesota 55401

SERVICE DATE: July 1, 2009

DOCKET NO. E,G-002/D-09-160

In the Matter of Annual Review of Remaining Lives, Depreciation for Electric and Gas Production and Gas Storage Facilities for 2009

The above entitled matter has been considered by the Commission and the following disposition made:

Approved Xcel Energy's proposed service lives, salvage rates, and resulting depreciation rates effective January 1, 2009 for plant in service, with the exception of the Prairie Island generating plants, and the month placed in service for new plant. Deferred the determination of the appropriate depreciation rates for the Prairie Island generating plants to the pending rate case, Docket No. E-002/GR-08-1065.

Required Xcel Energy to obtain Commission approval and authorization under the cost recovery statute prior to any cost recovery of the costs of the new project, Wind2Battery.

Required Xcel Energy to continue to provide in future depreciation studies an explanation and schedule of the differences between the depreciable service lives and IRP planning periods of electric production plant.

Required Xcel Energy to file its next annual remaining lives update for electric and gas production and gas storage facilities along with its five-year study, due February 17, 2010.

The Commission agrees with and adopts the recommendations of the Department of Commerce, which are attached and incorporated, as modified above.

BY ORDER OF THE COMMISSION

A handwritten signature in black ink that reads "Burl W. Haar".

Burl W. Haar
Executive Secretary

(S E A L)

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March 19, 2009

Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Office of Energy Security**
Docket No. E,G002/D-09-160

Dear Dr. Haar:

Attached are the *Comments* of the Minnesota Office of Energy Security (OES) in the following matter:

Northern States Power Company's (Xcel Energy or the Company), a Minnesota Corporation, Request for Approval of the Annual Review of Remaining Lives (RL) Depreciation for Electric and Gas Production and Gas Storage Facilities for 2009.

The *Petition* was filed on February 17, 2009 by:

Lisa H. Perkett
Director, Capital Asset Accounting
Xcel Energy Services, Inc.
414 Nicollet Mall, 4th Floor
Minneapolis, Minnesota 55401

The OES recommends that the Commission **approve** the filing and is available to answer any questions the Commission may have.

Sincerely,

/s/ LERMA LA PLANTE
Financial Analyst

LL/jl
Attachment



BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA OFFICE OF ENERGY SECURITY

DOCKET NO. E,G002/D-09-160

I. SUMMARY OF PROPOSAL

On February 17, 2009, Northern States Power Company (Xcel Energy or the Company), a Minnesota corporation, submitted its annual remaining-life (RL) depreciation review of its electric and gas Production and Gas Storage facilities service lives and salvage rates (the 2009 Depreciation Study). This submission is required by Minn. Stat. §216B.11 and Minn. R. pts.7825.0500-7825.0900. The Company also provided a comparison of the proposed electric generation service lives to the planning lives in its Integrated Resource Plan (IRP) as required in the Minnesota Public Utilities Commission's (Commission's) October 8, 2008 *Order* in Docket No. E,G002/D-08-189 (the 2008 Depreciation Study).¹

To determine the appropriate remaining lives of these facilities, Xcel Energy "evaluated system demand, availability of fuel supplies, operating and maintenance costs, and future technological advancements that influence the decision to retire electric and gas Production and Gas Storage facilities.² Based on its evaluation, the Company proposes that the current remaining lives for all electric and gas Production and Gas Storage facilities be adjusted only for the "passage of time."³ Xcel Energy is requesting that the new remaining lives become effective January 1, 2009.

¹ 2009 RL Depreciation Study, Attachments B and F.

² 2009 RL Depreciation Study, Page 3.

³ The passage-of-time adjustments reduces the remaining lives of all facilities by one year to reflect the passage of time since the last depreciation study. The passage-of-time adjustment does not result in a change of depreciation accrual if the remaining life by one year is offset by the increase in accumulated depreciation as a result of the previous year's depreciation accrual. The reduction in both the numerator and the denominator of the remaining life accrual (Plant in service – depreciation reserve/remaining life) results in essentially no increase in the calculated depreciation accrual (e.g., year 1 $(100-0/10 = 10)$, year 2 $(100-0/9 = 10)$). However, if a significant investments has been made, the remaining life should be adjusted to reflect the investment.

In addition, the Company proposes that the remaining lives and net salvage rates be established for two new facilities as follows:

1. The Riverside Metro Emissions Reduction Project plant (Riverside MERP plant), estimated in-service of May 2009.⁴ The Company proposes a remaining life of 30 years with net salvage rate of minus ten percent (-10 percent).
2. The Wind2Battery System, estimated in-service of December 2009. The Company proposes a remaining life of 15 years with zero percent (0 percent) net salvage rate.

The Company recommended an approximate increase of \$11 thousand in 2009 annual depreciation expense for assets not presently included in rate riders, which stems from the expected 2009 in-service date of the Wind2Battery System. The Riverside MERP plant is part of the Environmental Improvement Rider (EIR). The Company also recommended for assets included in rate riders an approximate 2009 net increase of \$1.7 million.

Furthermore, Xcel Energy removed from 2009 depreciation attachments the West Faribault plant. The sale of plant assets is awaiting the formal legal transfer of the title since receiving Commission approval on January 29, 2009 in Docket No. E002/PA-08-523. In compliance with the Commission's Order, once the work is completed, Xcel Energy will make a filing providing the final journal entries.

II. OFFICE OF ENERGY SECURITY ANALYSIS

The Minnesota Office of Energy Security's (OES) analysis focuses on the following:

- compliance with the October 8, 2008 Order for the 2008 Depreciation Study in Docket No. E,G002/D-08-189;
- approval of current remaining lives and net salvage rates of electric and gas production and gas storage assets; and
- proposal to establish new remaining lives and net salvage rate for two new production units as follows:
 1. The Riverside Metro Emissions Reductions Project (MERP)
 2. The Wind2 Battery System

⁴ The Riverside MERP Plan is part of the Metro Emissions Reduction Project (MERP) Settlement Agreement that was approved by the Commission on March 8, 2004 in Docket No. E002/M-02-633.

A. *COMPLIANCE WITH 2008 DEPRECIATION ORDERS*

1 *Filing Due Dates and Effective Dates*

The Commission's October 8, 2008 Order in Docket No. E,G002/D-08-189 specified that Xcel Energy shall file its next annual remaining life depreciation study of electric and gas production and gas storage facilities by February 17, 2009. Xcel met that deadline.

Xcel Energy has satisfied the requirement to review remaining life and salvage factors for its electric and gas production and gas storage facilities and to compare the service lives in the depreciation study with the IRP planning periods for each electric production facility based upon December 31, 2008 plant and reserve balances.

The Commission's August 26, 2005 Order in Docket No. E,G002/D-05-288 stated that by "February 17, 2010, the Company shall file its next five-year depreciation study based on its review of the remaining lives and salvage rates for electric and gas production and gas storage facilities." As a result, the OES expects that Xcel will file this study (including its removal study) next year.

The Company has also filed its electric rate case as per Docket No. E002/GR-08-1065 in compliance with Commission Order on Docket No. E,G002/D-08-189 dated October 8, 2008.

Regarding Xcel's proposal that its remaining lives become effective on January 1, 2009, the OES notes the following. There are significant changes being proposed regarding Xcel's generation resources. These changes, such as the proposed life extensions of Prairie Island nuclear generation plants I and II, could have substantial effects on Xcel's rates, both by increasing the costs of the plants and by extending the remaining lives of the plants. However, the final decisions to be made on those proposals are not known at this time and are not likely to be known when the Commission makes its decisions regarding the depreciation proposals in this docket. While the timing of such changes ordinarily would not be significant for ratemaking purposes, in this case it is important to ensure that the decisions in this depreciation docket do not have unintended consequences in Xcel's concurrent rate case, noted above.

As a result, the OES recommends that the Commission specify in its Order that the depreciation rates being set in this proceeding are provisional and subject to change, pending the decisions made in Xcel's rate case and Xcel's certificates of need related to Prairie Island (Docket Nos. E002/CN-08-509 and E002/CN-08-510).

2. *Comparison of the electric generation plant lives in the 2009 Depreciation Study to the planning lives in the 2007 Integrated Resource Plan*

In its 2008 Depreciation Study Order, the Commission ordered Xcel Energy to continue to provide, in the 2009 RL Depreciation Study, an explanation and schedule of the differences between the depreciable service lives and resource planning periods of electric production plant.

As stated above Xcel provided this information in its filing. Xcel Energy compares the lives in the 2009 Depreciation Study to the lives in the 2007 IRP. The Company states:

- The resource planning analysis assumed that most generation assets would be able to meet customer resource needs through the 15-year period, and exceptions are specifically discussed in the plan.
- Planned upgrades of specific electric generation assets were discussed further in Xcel's 2007 Resource Plan filing, submitted on December 14, 2007 in Docket E002/RP-07-1572.

Xcel Energy's Schedule F lists each electric production plant facility, its proposed depreciation life, the IRP planning/modeling end of life, and the rationale for the difference between the depreciation life and the IRP planning period. Overall, the OES concludes that Xcel has complied with Commission's 2008 depreciation *Order* and takes no issue with the Company's rationale for the differences at this time. However, on March 13, 2009, the OES filed comments on Xcel's planned upgrades in the Company's Resource Plan. The OES did not dispute Xcel's procedural proposals, but noted that it would be necessary for the OES to provide comments on future proposals expected to be made by Xcel, when the proposals are filed. However, at this time there are no known effects of the IRP docket in this petition. However, as noted above, several significant changes are being proposed regarding Xcel's generation plants and, as such, the decisions in the instant proceeding are provisional.

The OES recommends that the Commission require Xcel Energy to continue to provide in future depreciation studies an explanation and schedule of the differences between the depreciable service lives and IRP planning periods of electric production plant.

B. OES ANALYSIS OF CHANGES TO REMAINING LIVES AND SALVAGE RATES

As stated above, the Company proposes that the current remaining lives for all electric and gas Production and Gas Storage facilities be adjusted only for the one-year passage of time since the last depreciation study and requests to establish the remaining lives and net salvage rates for the following additions to production units as discussed below:

1. *The Riverside Metro Emissions Reduction Project plant (Riverside MERP plant), estimated in-service of May 2009*

The Riverside steam plant is located on the Mississippi River in northeast Minneapolis, Minnesota. The repowering project involves converting the existing coal-based plant to a natural gas combined gas cycle power plant. Riverside is the last plant to be repowered under MERP, and calls for a natural gas fire combined-cycle arrangement with two new combustion turbines, corresponding heat recovery steam system generators, and a repowered steam turbine (Unit 7) to be installed. The two new units, Units 9 and 10, will use the existing circulating water supply and return from the river. The resulting system generating capability for the new Riverside

MERP plant is expected to be approximately 500 megawatts ("MW"). The repowering project includes air pollution control equipment pursuant to the MERP requirements. Xcel proposes a 30-year remaining life and a minus ten percent (-10 percent) net salvage rate, effective with the in-service date estimated to be in May 2009 for this repowering project, consistent with the *MERP Settlement Agreement approved by the Commission on Docket No. E002/M-02-633 dated March 8, 2004.*

Depreciation expense changes for assets included in rate riders generally have a more immediate impact on ratepayers than those assets in base rates. However, Xcel Energy estimates a decrease in depreciation expense resulting from the life extension of the existing Riverside plant. This decrease is included as a credit to the Environment Improvement Rider (EIR) rate rider. Although Xcel Energy included the estimated increase in depreciation expense resulting from the Riverside MERP plant in the EIR rate rider, they also ensure that the ratepayers benefit from the decreased depreciation expense resulting from the life extension of the existing Riverside plant. The net increase in depreciation is estimated to be \$1.7 million and was included in the Company's 2009 EIR filing dated October 1, 2008.

Since this project is consistent with the Settlement Agreement in Docket No. E002/M-02-633, OES recommends approval of the service life and net salvage rate.

2. *The Wind2Battery System, estimated in-service of December 2009*

Company began installing a one MW wind energy battery storage system, using sodium-sulfur ("NaS") battery technology. Xcel indicates that this project will demonstrate the system's ability to store wind energy and move it to the electricity grid when needed. The current location of this project is Luverne, Minnesota, about 30 miles east of Sioux Falls, South Dakota and is connected to a nearby 11 MW wind farm owned by Minwind Energy, LLC. The OES verified that the NaS battery was purchased from NGK Insulators, Ltd. It consists of two semi-truck trailers and weigh approximately 80 tons. The cost of the Wind2Battery System amounts to \$3.87 million. Xcel proposes to book the expenses to all pertinent 300 series FERC accounts in other production. Xcel Energy propose a 15-year remaining life for this facility based on manufacturing expectations and a zero percent (0 percent) net salvage rate, effective with the in-service month of this new other production plant.

Xcel Energy estimated an increase of \$11 thousand in 2009 annual depreciation expense for assets not presently included in rate riders, which stems from the expected 2009 in-service date of the Wind2Battery System.

The Company states that they may request recovery of the Wind2Battery System as part or Renewable Energy Standard (RES) Cost Recovery Rider (RES Rider) and, if so, the associated increase in depreciation expense would be included in RES Rider calculations and associated annual filing. The Company further states that because they anticipate requesting recovery of the Wind2Battery system through the RES Rider, their current pending rate case (Docket No E002/GR-08-1065) was adjusted to exclude this asset from the test year.

OES recommends approval of Wind2Battery remaining life and net salvage rate for accounting purposes only or to establish records in the Company's books of accounts. However, prior to any recovery of cost from the ratepayers, the project must pass through the review process and gain approval from the Commission to be eligible for cost recovery under the Cost Recovery Statute.

III. RECOMMENDATIONS

The OES recommends that the Commission:

- approve Xcel Energy's proposed service lives, salvage rates, and resulting depreciation rates effective January 1, 2009 for plant in service and the month placed in- service for new plant. This approval is provisional, subject to the Commission's decisions in the Company's rate case and certificate of need filings.
- require Xcel Energy, prior to any cost of the new project, Wind2Battery, to obtain approval from the Commission, to be eligible for cost recovery under the Cost Recovery Statute.
- require Xcel Energy to continue to provide in future depreciation studies an explanation and schedule of the differences between the depreciable service lives and IRP planning periods of electric production plant; and
- require Xcel Energy to file its next annual RL update for electric and gas production and gas storage facilities along with its five-year study, due February 17, 2010.

/jl