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December 1, 2015

-Via Electronic Filing and Federal Express-

Darrell Nitschke, Executive Secretary
North Dakota Public Service Commission, Dept. 0408
600 East Boulevard
Bismarck, ND 58505-0480

**Re: Compliance Filing – Electric Rate Order
Case No. PU-07-776**

Dear Mr. Nitschke:

Northern States Power Company, doing business as Xcel Energy, submits the following letter detailing its proposal to transfer the North Dakota retail portion of the Decommissioning Escrow Fund to the Decommissioning Qualified Trust.

Together, the Escrow Fund and the Qualified Trust provide an effective and flexible means to ensure adequate funds are available to pay for decommission costs when needed. At a time when our operating license extensions were expected but not yet granted for Monticello and Prairie Island, the Escrow Fund provided an important safeguard against overfunding the Qualified Trust. However, the tax disadvantages and limitations on investment opportunities for the Escrow Fund have put upward pressure on the required funding levels. As part of the Company's fiduciary duties over the funds, the Company believes it is in the best interest of North Dakota rate payers to transfer the funds currently in the Escrow Fund to the Qualified Trust. For the benefit of North Dakota customers, we respectfully request the Commission approve a transaction to move the North Dakota jurisdictional portion of the Decommissioning Escrow Fund amount of \$6.2 million to the Decommissioning Qualified Trust.

Following is a brief history of the use of the Escrow Fund, as well as a summary of the rationale for transferring funds to the Qualified Trust, as they apply to all jurisdictions.

A. Escrow Fund Background

The Decommissioning Qualified Trust was established in 1990 under terms and conditions required by the Nuclear Regulatory Commission (NRC). The sole purpose of the Qualified Trust was to create an account in which funds to decommission our nuclear facilities could be collected and ultimately withdrawn. Amounts collected in retail rates from all customers in each of NSP's state jurisdictions were deposited into the Qualified Trust over time. Given that the Qualified Trust had a number of restrictions put in place by the NRC on the withdrawal of funds for anything other than approved decommissioning costs, as the Trust grew, the Escrow Fund was established in 2006 as a means of providing some flexibility in managing overall decommissioning funding levels, and more specifically, to enable customer refunds in the event decommissioning collections were deemed overfunded. Since then, customer contributions¹ have been made to the Escrow Fund, rather than the Qualified Trust. Per the terms of the escrow agreement, funds could be withdrawn (i.e., refunded) if it was determined that those funds were no longer needed for expected future decommissioning costs.

The flexibility afforded by the Escrow Fund was important at the time it was created. The Company was in the midst of renewing the operating licenses for all three nuclear units. The NRC required companies operating nuclear plants to provide annual assurance that sufficient funds were available to meet decommissioning costs for all units with remaining operating lives shorter than five years. Since the life extensions on our Monticello and Prairie Island units were still pending, it was important for the Company to demonstrate adequate funding levels and still be able to return funding to customers should the amounts collected be in excess of the anticipated cost. The less-restrictive Escrow Fund provided the required level of assurance that there would be adequate funds to decommission the plants (since amounts could be transferred from the Escrow Fund to the Qualified Trust if and when needed) while also providing the option to refund monies should the accounts, in aggregate, become over-funded.

The Company subsequently received approval for a 20-year license extension for all three operating units. With the life extensions granted, the additional time made available for the funds to continue to grow had the potential to result in over-funding of the Qualified Trust. At around the same time, the 2008 financial market collapse resulted in a significant drop in the value of the related decommissioning fund investments. The net effect of these circumstances was a determination that the decommissioning fund balances were sufficiently funded. In fact, accruals and

¹ With the exception of South Dakota customers. Our South Dakota jurisdiction does not have an Escrow Fund balance as the South Dakota Commission has historically only approved funding for about 82 percent of their required contribution, and thus were not in a potential overfunding situation when the Escrow Fund was created.

ratepayer collections were “turned off” (set to \$0) in 2009 and 2010 in most jurisdictions, including North Dakota. As a result, the need for fluidity and flexibility in managing overall fund levels had diminished considerably.

B. Current Situation

Currently, given the forecast of the decommissioning fund balance and the costs to decommission the plant and address spent fuel there is a need to continue with the accruals throughout the remaining life of the units in order to achieve fully funded status. As such, there continues to be little need for the flexibility provided by the Escrow Fund. Additionally, there are still costs related to maintaining the Escrow Fund and the tax impacts of the fund are much less favorable than those of the Qualified Trust. For example, the tax rate on realized earnings in the Qualified Trust is approximately 28 percent, compared to the Company’s corporate tax rate of approximately 41 percent applied to Escrow Fund earnings. In addition, contributions to the Qualified Trust are immediately deductible for tax purposes, while contributions to the Escrow Fund are not.

To minimize the unfavorable tax outcomes, Escrow Fund investments were made entirely in municipal bonds. While these investments are able to grow largely tax free, their overall rate of earnings is much lower than the Qualified Trust. In addition, the market size of the Escrow Fund is relatively small in comparison to the Qualified Trust, which restricts the types of investments and institutional pricing available to the Escrow Fund. Several types of investments included in the Qualified Trust portfolio require initial and ongoing investments much larger than can be practicably implemented within the Escrow Fund. As a result, continued investment in the Escrow Fund contributes a significant drag on the overall earnings potential of the total decommissioning funds.

For these reasons, on August 27, 2015 the Minnesota Public Utilities Commission (MPUC) approved the transfer of the Minnesota jurisdictional portion of the Escrow Fund into the Qualified Trust as part of its ruling on the 2016-2018 triennial nuclear decommissioning docket (Docket No. E002/M-14-761²). This transfer was approved in order to achieve a reduction in their decommissioning accrual and increase the earning potential of those dollars already invested. In addition, the Wisconsin portion of the Escrow Fund was transferred to the Qualified Trust earlier this month, at the same time as the Minnesota portion. Thus, all other state jurisdictions have moved away from the need for the Escrow Fund in favor of the more cost effective Qualified Trust for external nuclear decommissioning funds.

We recommend that the North Dakota portion of the Escrow Fund monies be transferred into the Qualified Trust as soon as is practicable. Given that the

² The Company submitted our 2016-2018 Triennial Nuclear Decommissioning to the North Dakota Public Service Commission on December 4, 2014 (Case No. PU-14-837).

Minnesota and Wisconsin transfers occurred in November, North Dakota is now the single state jurisdiction with a remaining balance in the Escrow Fund. The table below shows the North Dakota fund balances as of September 30, 2015.

Table 1
Escrow Fund Balance as of October 31, 2015

Unit	Book Value	Market Value
Monticello	\$832,983	\$817,892
Prairie Island Unit 1	2,097,734	2,088,321
Prairie Island Unit 2	3,419,097	3,403,756
Total	\$6,349,814	\$6,309,969

It is important for the Commission to be aware that, with the Minnesota and Wisconsin portions of the Escrow Fund transferred to the Qualified Trust, the Company anticipates that the North Dakota fund balance will not, by itself, be sufficient to generate returns to justify the continued investment in a managed portfolio. As a result, in the interim the Company intends to transfer the remaining funds to a money market or cash account. This will minimize the impact of account fees on limited returns given the current applicable tax rate and size limitations.

C. Recommendation

The Company recommends that the of the amount in the Decommissioning Escrow Fund, representing the North Dakota jurisdictional portion, be transferred into the Decommissioning Qualified Trust as soon as is practicable to take full advantage of the Qualified Trust's increased earning power and favorable tax implications. We respectfully request the Commission to approve this fund transaction.

If you have any questions concerning the nuclear decommissioning funds, feel free to contact me at 701-241-8632 or dave.sederquist@xcelenergy.com.

Sincerely,



DAVID H. SEDERQUIST
SENIOR REGULATORY AND FINANCE CONSULTANT
NSP – NORTH DAKOTA