Xcel Energy®

414 Nicollet Mall
Minneapolis, Minnesota 55401-1993

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PUBLIC SERVICE COMMISSION

August 29, 2008

Mr. Patrick Fahn, Chief Engineer
North Dakota Public Service Commission
600 E Boulevard Ave., Dept. 0408
Bismarck, ND 58505

RE: *2008 Review of Remaining Lives* Reply Comments

Dear Mr. Fahn:

Northern States Power Company, a Minnesota corporation (the "Company") operating in North Dakota, annually files a depreciation study for its electric and natural gas production facilities with the Minnesota Public Utilities Commission ("MPUC"). The most recent version of this depreciation study, the *2008 Review of Remaining Lives,* Docket No. E,G002/D-08-189, was submitted on February 19, 2008. An informational copy of the Company's submittal has previously been provided on February 20, 2008. Minnesota's Office of Energy Security ("OES") issued its comments on the Company's filing on July 14, 2008 without any major objections to Company proposals. The Company filed its reply comments to MPUC inquiries on August 12, 2008. An informational copy of these comments has been included in this mailing. An informational copy of the OES comments has also been included.

Please contact me at 612-330-6950 if there are any questions regarding either of these filings.

Sincerely,

Lisa H. Perkett
Director, Capital Asset Accounting

Enclosures

Xcel Energy®

414 Nicollet Mall
Minneapolis, Minnesota 55401

August 12, 2008

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

—Via Electronic Filing—

RE: REPLY COMMENTS
2008 ANNUAL REVIEW OF REMAINING LIVES
DOCKET NO. E002/M-08-189

Dear Dr. Haar:

Northern States Power Company ("Xcel Energy" or the "Company") submits its Reply Comments in the above-referenced matter, in response to the Comments of the Office of Energy Security ("OES") dated July 14, 2008.

We appreciate the OES's recommendation to approve our filing, and believe that our Reply addresses the concerns raised in the OES's Comments.

Copies of this filing have been served on the Residential Utilities Division of the Attorney General's Office and on all parties on the attached service list.

Please contact Judy Poferl at (612) 330-6125 or judy.m.poferl@xcelenergy.com if you have any questions regarding this Reply.

SINCERELY,

/s/

SCOTT SCHEFFER
REGULATORY CASE SPECIALIST

ENCLOSURE

c: Service List

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

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

IN THE MATTER OF NORTHERN STATES POWER COMPANY, A MINNESOTA CORPORATION, REQUEST FOR APPROVAL OF 2008 ANNUAL REVIEW OF REMAINING LIVES DEPRECIATION FOR ELECTRIC AND GAS PRODUCTION AND GAS STORAGE FACILITIES

DOCKET NO. E, G002/D-08-189

REPLY

OVERVIEW

Northern States Power Company, a Minnesota corporation ("Xcel Energy" or the "Company") submits to the Minnesota Public Utilities Commission (the "Commission") this reply to the comments of the Minnesota Office of Energy Security ("OES") regarding our annual remaining lives filing for electric and gas production and gas storage facilities.

The OES recommends approval of our filing, subject to certain requirements for future depreciation filings. The OES also invited comment from the Company regarding the symmetry of reflecting changes in depreciation costs in rate riders compared to the treatment afforded general depreciation changes in rate cases. Finally, the OES recommends removal of original Monticello licensing costs in our next general rate case, given the life extension underway at that facility.

We welcome this opportunity to respond. We agree with and accept the OES's recommendations for future filings. Our reply provides information regarding the additional two issues noted by the OES and will show:

- Reflecting changes in depreciation costs in rate riders and general rate cases is appropriate, striking a fair and reasonable balance for both customers and the Company.

- It is appropriate to spread and recover any remaining original licensing costs over the extended life of Monticello, consistent with the treatment afforded the remaining plant investment.

REPLY

A. Reflection of Depreciation Changes

Depreciation expense provides the return of investment in a particular asset over the life of that asset. Generally speaking, when investment levels increase, depreciation expense will likewise increase. This increase in depreciation expense will be reflected in the next remaining life petition filed with the Commission.

There are times, however, when the Company's investments in a particular asset trigger the ability to extend the life of that asset. When that occurs, the corresponding depreciation expense will decrease, as the total remaining investment is spread and recovered over a longer useful life. This decrease would then be reflected in the next remaining life petition filed with the Commission.

While a life-extension event can occur with assets in either the general asset base or those addressed by a rate rider, it is likely to be more noticeable when it occurs in our general asset base: the reduced expense will be evident in the next remaining life petition filed with the Commission, while the increased investments that were required to create the life extension will not be evident to the Commission until the next general rate case proceeding. In contrast, rate riders often recover substantial investments in new projects designated as appropriate for that type of regulatory treatment. To the extent there are life-extension issues associated with an asset recovered through a rate rider, the agreement to establish the rate rider has typically addressed those issues up-front, and the impact on depreciation is more than fully offset by the cost of the new investments in the project.

The $7 million reduction in depreciation expense associated with our general asset base is a good example of the effect of life extension. Here, our ongoing investments in Sherco 1, 2, and 3 allowed us to extend the units' useful lives by an additional two to three years, reducing the depreciation expense for that entire facility. While that facility's total depreciation expense declined, our overall investment levels are high: we will invest a total of approximately $650 million in non-rider assets during 2008, and a total of $990 million in non-rider investments since 2006. At the same time, the nearly $10 million in depreciation expense that will be recovered in our Metropolitan Emissions Reduction Project ("MERP") rider and our Renewable Energy Standard

("RES") rider is associated with the corresponding overall investment in those projects of $580 million.

The current regulatory structure of providing rate rider recovery for certain qualifying investments while continuing to use general rate cases to address all other costs provides a fair and appropriate framework for facilitating this significant level of investment in our system. While a critical component of our ability to undertake projects of the scale and significance of MERP and other major initiatives, rate riders address a comparatively small part of our overall investments. For example, the approximately $10 million increase in 2008 rate rider depreciation levels represents a small portion of the overall total 2008 depreciation costs of nearly $370 million. Likewise, while we saw the benefit of reduced depreciation expense due to life extension at the beginning of 2008 in production assets, our 2008 investments in our general asset base will raise non-rider depreciation expense by nearly $12 million by year-end for all electric assets.

For these reasons, we believe that the reasonableness of the regulatory framework is best viewed from an overall and ongoing perspective, rather than a single point in time. We believe the current framework is reasonable, results in fair and reasonable rates for customers, and facilitates the significant investments required to meet our customers' needs while responding to various public policy initiatives.

B. Monticello Licensing Costs

The OES recommends removing from FERC Account 302 the unamortized original licensing costs for the Monticello nuclear plant at the time of the Company's next rate case. The Company first clarifies that the original licensing costs were not placed in FERC Account 302, but rather are contained in FERC Accounts 321 through 325 as an integral part of the original asset value. That said, the Company disagrees with the OES's recommendation.

We believe that the original licensing costs should be treated like the other original plant costs that were incurred as a necessary part of building the plant and allowing it to operate through 2010. Accordingly, the original licensing costs were included with the original construction as additions to the asset costs and are thus contained in nuclear plant FERC Accounts 321 through 325. As with all the other original costs of the plant, the original licensing costs have not been fully recovered. As part of the re-licensing, the Company is spreading the remaining original plant costs over the remaining life of the facility, which has now been extended to 2030 as a result of the re-licensing process. In our view, there is no reason to treat the original licensing costs any differently than any of the original un-recovered costs of the plant.

While we offer this perspective for consideration, we recognize that this issue can be better developed and resolved in our next electric rate case, and we will work with the OES to that end. We believe the Commission does not need to act on this issue at this time, and can instead allow the issue to develop in the context of our next electric rate case.

CONCLUSION

We appreciate this opportunity to provide additional information in support of our 2008 remaining life filing. We agree to provide the additional reporting for future filings outlined in the recommendations of the OES. We respectfully request that the Commission approve our petition, and believe no further action is required at this time.

Dated: August 12, 2008

Northern States Power Company,
a Minnesota corporation

RESPECTFULLY SUBMITTED,

By: /s/

JUDY M. POFERL
MANAGING DIRECTOR
GOVERNMENT AND REGULATORY AFFAIRS

CERTIFICATE OF SERVICE

I, Carole Wallace, hereby certify that I have this day served copies or summaries of the foregoing document on the attached list of persons.

xx by depositing a true and correct copy thereof, properly enveloped with postage paid in the United States Mail at Minneapolis, Minnesota

xx electronic filing

DOCKET NO. E,G002/D-08-189

Dated this 12th day of August, 2008.

/s/ ______________________

Carole Wallace

In the Matter of Xcel Energy 2008 Annual
Review of Remaining Lives

E,G002/D-08-189
7-14-08 OES

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July 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 Office of Energy Security**
Docket No. E,G002/D-08-189

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 2008.

The P*etition* was filed on February 19, 2008. The petitioner is:

> 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:

- **require** Xcel Energy, for ratemaking purposes, to remove from FERC Account 302, all unamortized original licensing costs for the Monticello nuclear plant at the time of its next electric rate case;

- **approve** Xcel Energy's proposed service lives, salvage rates, and resulting depreciation rates effective January 1, 2008 for plant in service and the month placed-in-service for new plant;

- **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 by February 17, 2009.

The OES further requests the Company to address in its *Reply Comments,* the issue of the rate riders deprecation increase of $9,633,023 going immediately to electric utility ratepayers while the $7,001,493 depreciation *Petition* decrease may not be recognized until the next electric utility rate case.

The OES is available to answer any questions the Commission may have.

Sincerely,

/s/ MICHELLE ST. PIERRE
Financial Analyst

MSP/sm
Attachment

office of energy security

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA OFFICE OF ENERGY SECURITY

DOCKET NO. E,G002/D-08-189

I. SUMMARY OF PROPOSAL

On February 19, 2008, 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 2008 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) September 21, 2007 *Order* in Docket No. E,G002/D-07-251 (the 2007 Depreciation Study).[1]

To determine the appropriate RLs 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 RLs for all electric and gas Production and Gas Storage facilities be reduced one year except for specific facilities where major capital improvements have been made or will be placed in service during the year. Additionally, salvage rates are proposed to remain in effect for all electric and natural gas Production and Gas Storage plant except for High Bridge-MERP and Grand Meadow Wind Farm (Grand Meadow) where new plant will be added.[3] Xcel Energy proposes the following changes to its electric and gas RLs and salvage rates as of January 1, 2008:

[1] 2008 RL Depreciation Study, page 13, and Schedule F.

[2] 2008 RL Depreciation Study, page 3.

[3] 2008 RL Depreciation Study, pages 12 and 13.

ELECTRIC UTILITY

- increase the RL from 0 to 30 years and approve a negative 10 percent salvage rate for Other Production: High Bridge-MERP Plant;
- increase the RL from 12 to 15 years for Steam Production: Sherco Units 1, 2, and 3;
- increase the RL from 0 to 25 years and approve a negative 10 percent salvage rate for Other Production: Grand Meadow;
- increase the RL from 3 to 5 years for Other Production: Blue Lake Units 1 through 4;
- increase the RL from 2 to 5 years for Other Production: Granite City;
- increase the RL from 2 to 5 years for Other Production: Key City;

GAS UTILITY

- increase the RL from 6 to 8 years for Gas Production: Maplewood Propane Plant;
- increase the RL from 3 to 8 years for Gas Production: Sibley Propane Plant;
- increase the RL from 6 to 10 years for Gas Production: Wescott Propane Plant; and
- increase the RL from 6 to 10 years for Gas Storage: Wescott LNG Plant.[4]

Also, as part of the previously approved life extensions of the Monticello nuclear plant and the Saint Anthony Falls hydroelectric plant, Xcel Energy states that it incurs costs for licensing renewal fees and related expenses. These relicensing costs are accounted for in Account 302 – Franchises and Consents. For Monticello, "[t]he costs of the life extension process, including both license renewal fees paid to the Nuclear Regulatory Commission along with related expenses incurred during the re-licensing process, are all included in this account."[5] For Saint Anthony Falls, "[t]he costs included in this account consist of the re-licensing amounts paid to FERC to obtain the new license, along with related expenses during the re-licensing process."[6] The Company states that it "is here informing the Commission of the use of this FERC[7] account" for Monticello and Saint Anthony Falls (Hennepin Island) relicensing costs.[8]

Additionally, Xcel Energy provides the approved accounting for the sale of two dispersed diesel generator units at United Healthcare. The OES notes that at the time the Company filed this *Petition*, the sale was not completed but since that time, the accounting and journal entries required by the Commission in Docket No. E002/PA-07-1298 were filed on April 10, 2008.

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[4] 2008 RL Depreciation Study, pages 4 through 13.

[5] 2008 RL Depreciation Study, page 6.

[6] 2008 RL Depreciation Study, page 6.

[7] Federal Energy Regulatory Commission.

[8] 2008 RL Depreciation Study, page 6.

Xcel Energy estimates an annual depreciation expense decrease of $7.4 million as a result of the requested electric and gas depreciation adjustments. The Company states that the decrease excludes the increase in depreciation for High Bridge-MERP, which will be reflected in the MERP rate rider[9] and for Grand Meadow, which will be reflected in the proposed Renewable Energy Standard Cost Recovery Rider.[10]

Xcel Energy requests an effective date of January 1, 2008 for all RL changes except for the High Bridge-MERP and Grand Meadow investments. The Company proposes to begin depreciation with the month the new facilities are placed in-service.[11] Xcel Energy estimates an in-service month of May 2008 for High Bridge-MERP and November 2008 for Grand Meadow.[12]

II. OFFICE OF ENERGY SECURITY ANALYSIS

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

- compliance with the September 21, 2007 *Order* for the 2007 Depreciation Study in Docket No. E,G002/D-07-251;
- proposed changes to the RLs and salvage rates; and
- amortization of relicensing costs in FERC Account 302.

A. COMPLIANCE WITH THE 2007 DEPRECIATION ORDER

1. Filing Due Dates

The Commission's September 21, 2007 *Order*[13] specified that Xcel Energy shall file its next annual RL depreciation study of electric and gas Production and Gas Storage facilities by February 17, 2008.[14] February 17 was a Sunday; Xcel made its filing February 19. The OES recommends that the Commission require Xcel Energy to file its next annual RL update for electric and gas Production and Gas Storage facilities by February 17, 2009.

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[9] Docket No. E002/M-02-633.

[10] Docket No. E002/CN-07-873.

[11] 2008 RL Depreciation Study, page 1.

[12] According to a June 30, 2008 telephone conversation with Xcel Energy, High Bridge-MERP was placed in service May 23, 2008 and Grand Meadow is on target to be placed in service in late October or early November.

[13] Docket No. E,G002/D-07-251.

[14] Xcel Energy's average service lives and salvage rates for its electric and gas General, Transmission, and Distribution Plant is reviewed every five years rather than in annual depreciation updates, which is the process for plant using the RL depreciation method. The Company's most recent five-year depreciation study for General, Transmission, and Distribution Plant is addressed in Docket No. E,G002/D-07-1528, which is pending a Commission decision.

Additionally, the OES notes that the *Order* requires that the Company's next five-year depreciation study or RL review for electric and gas Production and Gas Storage facilities, which incorporates a comprehensive review of salvage or demolition, be filed by February 17, 2010.

2. *Comparison of the electric generation plant service lives in the 2008 Depreciation Study to the planning lives in the 2007 Integrated Resource Plan*

The Commission's September 21, 2007 *Order*[15] required Xcel Energy to continue to: 1) describe how the service lives proposed relate to the planning periods in the IRP for each electric production facility, and 2) contain a schedule that shows the comparison. As stated above Xcel provided this information in its filing. Xcel Energy compares the lives in the 2008 Depreciation Study to the lives in the 2007 IRP.[16] The Company states:[17]

- The resource planning analysis assumed that most generation assets would be able to meet customer resource needs through the 15-year planning period, and exceptions are specifically discussed in the plan.

- Planned upgrades of specific electric generation assets were discussed further in our 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. From its review, the OES concludes that Xcel has complied with Commission's 2007 depreciation *Order* and takes no issue with the Company's rationale for the differences at this time.

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 RL LIVES AND SALVAGE RATES

As stated above, the Company proposes that the current RLs 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 except for the changes shown above and discussed in detail in the Xcel Energy's *Petition*.

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[15] Docket No. E,G002/D-07-251.

[16] Docket No. E002/RP-07-1572, filed November 14, 2007.

[17] 2008 RL Depreciation Study, page 13.

The OES notes two proposals where the proposed changes are unsupported in the Petition. First, for Grand Meadow, the Company proposes a life of 25 years and a negative 10 percent salvage rate to recover the removal of towers, turbines, concrete footings, transformers and other accessory equipment necessary to return the land to usable green space, as the majority of land will be leased for this large wind energy conversion system. Second, for the High Bridge-MERP, Xcel Energy also requests a negative 10 percent salvage.[18]

Thus, the OES informally requested additional support from Xcel Energy.[19] Company personnel stated that for Grand Meadow, the proposed life of 25 years is based on:

- the wind turbine manufacturer cites a 30-year life and other utilities are using a 20 to 25 year life (the majority use 25 years) for depreciation purposes.

Also, Xcel Energy noted that it used a 25-year life in its certificate of need analysis.[20]

Further, the proposed negative 10 percent salvage for Grand Meadow is based on the following:

- the land is leased and the lease agreement requires Xcel Energy to remove the wind turbines as well as restore the land to farmable land at the time of retirement;
- the retired wind turbine will have little if no scrap value;
- the salvage rates for Other Production Plant-Structures and Improvements (Account 341) range from a negative 10 percent to negative 60 percent net salvage; and
- the Company has no salvage experience for this type of wind turbine[21] so it chose the conservative end of the salvage range or negative 10 percent.

For the proposed negative 10 percent salvage for High Bridge-MERP, it is based on the following:

- Other Production Plant, specifically the Angus Anson plant, has a negative 10 percent salvage rate for its Structures and Improvements;
- the salvage rates for all Other Production Plant-Structures and Improvements (Account 341) range from a negative 10 percent to negative 60 percent net salvage; and

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[18] The OES takes no issue with the proposed life of 30 years which is based on the Settlement in Docket No. E002.M-02-633.

[19] Per telephone conversation on July 2, 2008 with Lisa Perkett.

[20] See Docket Nos. E002/CN-07-873 (Certificate of Need) and E002/M-07-872 (Renewable Energy Standard Cost Recovery Rider).

[21] Xcel Energy stated that it previously owned wind turbines in the late 1980s. However, these turbines would be considered petite compared to the Grand Meadow turbines. The smaller turbines were not very reliable and constantly in need of repair. The turbines were retired before they were 20 years old.

- the Company chose a more conservative salvage percentage until it can study the salvage in its next demolition study due in 2010.

Additionally, Xcel Energy noted that removal cost of the old High Bridge steam plant was higher than the approved negative 20 percent.

Based on the OES' analysis, the OES concludes that the Company's proposed RLs and salvage rates are reasonable. Additionally, the proposed effective date of January 1, 2008 for plant in service and the month placed-in-service for new plant are reasonable. As such, the OES recommends that the Commission approve Xcel Energy's proposed lives, salvage rates, and resulting depreciation rates effective January 1, 2008 for plant in service and the month placed-in-service for new plant.

Based on the Company's proposals, the electric and gas estimated overall annual depreciation expense impact will be a decrease of $7,440,735 made up of a $7,001,493 decrease for the electric utility and a $439,242 decrease for the gas utility. If approved, Xcel Energy will recognize these decreases in depreciation expense for 2008 financial statement purposes but not on customers' bills.

The OES notes that the reason that the annual $9,633,023 depreciation expense increase related to High Bridge-MERP and Grand Meadow facilities is not netted with the $7,001,493 depreciation decrease for other electric utility facilities is due to the recovery for these facilities provided for in the MERP Rider and Renewable Energy Standard Cost Recovery Rider. Thus, the higher depreciation cost recovery for High Bridge-MERP and Grand Meadow facilities will be reflected on customers' bills as soon as the facilities are placed in service.

The OES is certainly aware that Xcel Energy has options to file for rate riders in Minnesota. However, of course, there is no requirement that the Company file such riders. Further, the effects of Xcel Energy's proposals in various proceedings are unknown until the numbers are calculated. Since it is now known what those effects are on depreciation expense, the OES requests the Company to address in its *Reply Comment* why it is reasonable for the deprecation increase of $9,633,023 to go directly to electric utility ratepayers while the $7,001,493 depreciation decrease may not be recognized until the next electric utility rate case.

C. AMORTIZATION OF RELICENSING COSTS IN FERC ACCOUNT 302

As stated above, Xcel Energy informs the Commission of its use of FERC Intangible Plant Account 302 – Franchises and Consents within the USOA[22] chart of accounts for the Company's relicensing costs. Intangible costs are amortized by systematic charges to expense over the estimated periods of useful life, just as the cost of tangible assets having a limited period of usefulness is depreciated. FERC Account 302 (A) states that the account includes:

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[22] Uniform System of Accounts.

> Amounts paid to the federal government, to a state or to a political subdivision thereof in consideration for franchises, consents, water power licenses, or certificates, running in perpetuity or for a specified term of more than one year, together with necessary and reasonable expenses incident to procuring such franchises, consents, waterpower licenses, or certificates of permission and approval, including expenses of organizing and merging separate corporations, where statutes require, solely for the purpose of acquiring franchises.[23]

As discussed by Xcel Energy in its *Petition*, the final license extension of 30 years for the dams associated with the Saint Anthony Falls Hydroelectric Project was issued by the FERC in March 2004 with an end-of-life date of March 2034.[24] From discussions with Company personnel, the OES learned that the original 100-year license expired in 2004 or the same year that the license was renewed. Further, the Company previously included the Saint Anthony Falls relicensing costs in the Hydro Production Plant Accounts 331 to 335. The Commission approved a remaining life of 30.2 years in 2004 for those accounts. In 2007, upon the request of Wisconsin regulators, the relicensing costs of $2,836,397 were transferred to Account 302 with a remaining life of 27.2 years in 2007.

Additionally, Xcel Energy states in its *Petition*, "As part of the Monticello nuclear plant life extension approval, recovery of the operating license renewal costs are accounted for under FERC Account 302."[25] The OES notes that the original Monticello license had an expiration date of September 2010. On October 23, 2006, the Commission granted a Certificate of Need (CN) for the spent fuel storage needed to operate the plant an additional 20 years beyond 2010.[26] From discussions with Company personnel, the OES learned that the Company also previously included the Monticello licensing costs in the Nuclear Production Plant Accounts 321 to 335 which had a 23.8-year remaining life in 2007. In 2007, the balance of the licensing costs, $32,269,486, was transferred to Account 302 which had a remaining life of 23.8 years.

The OES notes that, unlike the Saint Anthony Falls relicensing, there is a period for Monticello where the original license costs and the relicensing costs are both being amortized. The original license costs for Monticello will not be fully amortized until September 2010. Further, the Company began amortization of the relicensing costs in 2007. The OES is concerned that if Xcel Energy files its next electric general rate case before September 2010, ratepayers will pay for the

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[23] 2007 18 CFR1.101, page 414.

[24] 2008 RL Depreciation Study, page 6.

[25] 2008 RL Depreciation Study, page 6.

[26] The Commission's Order became fully effective on June 1, 2007 when the Legislative session came to a close without the Legislature taking action to modify the CN.

amortization of the original licensing costs as well as the relicensing costs. Therefore, the OES recommends that the Commission require Xcel Energy, for ratemaking purposes, to remove from FERC Account 302, all unamortized original licensing costs for the Monticello nuclear plant at the time of its next electric rate case.

III. RECOMMENDATION

The OES recommends that the Commission:

- require Xcel Energy, for ratemaking purposes, to remove from FERC Account 302, all unamortized original licensing costs for the Monticello nuclear plant at the time of its next electric rate case;

- approve Xcel Energy's proposed service lives, salvage rates, and resulting depreciation rates effective January 1, 2008 for plant in service and the month placed-in-service for new plant;

- 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 by February 17, 2009.

The OES further requests the Company to address in its *Reply Comments,* the issue of the rate riders deprecation increase of $9,633,023 going immediately to electric utility ratepayers while the $7,001,493 depreciation *Petition* decrease may not be recognized until the next electric utility rate case.

/sm

STATE OF MINNESOTA)
) ss
COUNTY OF RAMSEY)

AFFIDAVIT OF SERVICE

I, **Sharon Ferguson**, being first duly sworn, deposes and says: that on the **14th** day of **July, 2008**, served the **Minnesota Office of Energy Security Comments**

MNPUC DOCKET NUMBER: E,G002/D-08-189

XX by depositing in the United States Mail at the City of St. Paul, a true and correct copy thereof, properly enveloped with postage prepaid

XX electronic filing

/s/Sharon Ferguson

Subscribed and sworn to before me

this 14th day of July, 2008

/s/ Vickie L. Harty

Vickie L. Harty
Notary Public-Minnesota
Commission Expires Jan 31, 2011

E,G002/D-08-189

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