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Fargo, ND 58102

June 5, 2012

Darrell Nitschke
Executive Secretary
North Dakota Public Service Commission
Department 408
600 East Boulevard Avenue
Bismarck, ND 58505-0480

RE: ADVANCE DETERMINATION OF PRUDENCE FOR TWO PRAIRIE ISLAND
NUCLEAR PLANT PROJECTS: 1) NEW UNIT 2 STEAM GENERATORS; AND
2) EXTENDED POWER UPRATE PROJECTS FOR UNITS 1 AND 2
Case No. PU-10-127

Dear Mr. Nitschke:

Northern States Power Company, doing business as Xcel Energy, submits this update to the North Dakota Public Service Commission on the status of the two Prairie Island Nuclear Generating Plant projects that are the subject of this proceeding.

On January 31, 2012, the Company filed a request to suspend the above proceeding due to developments impacting the extended power uprate project since the filing of our application. Based on the updates discussed more fully below, we now respectfully request the Commission move forward with consideration of an Advance Determination of Prudence for the replacement of the Unit 2 steam generators as part of the larger Prairie Island life extension project, but postpone consideration of an ADP for the Extended Power Uprate Project

A. Updates on Unit 2 Steam Generator and EPU Projects

Since filing the Application requesting ADP's for these two projects, we have responded to information requests and provided other additional information as requested by Commission staff. However, intervening events have impacted the scope of these projects as well as the nuclear industry in general. Given the passage of time since filing our Application and the changing circumstances surrounding both projects, we are providing the Commission with an update on the status of the projects.

1. *Update on the Unit 2 Steam Generators*

The installation of the new Unit 2 steam generators remains scheduled for the spring 2013 refueling outage. However, as discussed below, two significant updates have occurred since we filed our ADP Applications that impact our ADP request for the steam generators.

First, on June 29, 2011, the Nuclear Regulatory Commission renewed the operating licenses for both Unit 1 and Unit 2 for an additional 20 years (i.e., to 2033 and 2034 respectively). With the issuance of the license renewals, an important regulatory milestone was achieved and regulatory certainty for the Unit 2 steam generator replacement project has been meaningfully increased. In our previous discussions, the staff proposed a Settlement Agreement granting an ADP for the Unit 2 steam generators, but waiving an entitlement to cost recovery under N.D.C.C. § 49-05-16(5) for the project if it was abandoned prior to obtaining the renewed operating licenses. In light of the NRC's approval, we believe concerns tied to NRC approval have been resolved.

Second, the projected cost of the Unit 2 steam generator project has increased a little over 10 percent since the initial project budget was developed in 2006. Our current estimate for construction of this project is \$288 million, or approximately \$29 million more than what was anticipated in our Application. The increase reflects updated bids received for a number of tasks such as: installation of the new generators; disposal of the old generators; radiation protection services and additional project infrastructure based on a more detailed review; and lessons learned from the Unit 1 steam generator replacements.

The new steam generators are a major component of the life cycle management efforts to continue to reliably and safely operate the plant through its renewed license period. The current Unit 2 steam generators are the original steam generators installed when the plant was first built nearly 40 years ago. They are the longest operating generators of their kind in the country. Thus, replacing the steam generators is required to continue to reliably, safely, and economically operate the plant through its renewed operating license period.

As discussed in our Application, there are other significant life cycle management costs that were included in the economic analysis of extending the life of the plant. However, we only chose to request an ADP for the Unit 2 steam generator costs as they were significant costs that occurred over a relatively short period of time. In the

economic analysis provided in our Application, the cost of the closest alternative to continuing to operate the plant was over \$300 million higher on a Present Value Revenue Requirement basis. Accordingly, the replacement of the Unit 2 steam generators, and continued operation of Unit 2, was clearly the best choice for our customers. The additional \$29 million increase in costs for the new generators has a *de minimis* impact on the significant benefit of continuing to operate the plant. Thus, the increase in costs does not impact the reasonableness of the project.

Given the NRC's approval of the plant's operating licenses and the minimal impact the cost increase has on the significant benefits of operating the plant through its extended life, replacement of the Unit 2 steam generators continues to meet the requirements for an ADP. Since the full cost of the Unit 2 steam generator replacement project will occur in early 2013, and therefore will be included in the Company's next general rate application (expected to be filed in December 2012 with a 2013 test year), granting an ADP in this proceeding will eliminate the need for this project to be re-addressed in the rate case.

2. *Update on the EPU*

Due to a number of changes since the project was first proposed and evaluated, we now believe the benefits to our customers will be considerably less than was previously anticipated. The decrease in benefits is due to a number of factors related to the EPU including: additional design and development work now required prior to filing a license amendment request with the NRC; a later projected implementation date; a reduced MW capacity; and updated cost estimates for the project. Other non-project related factors that reduce the anticipated benefits include lower forecasts of load growth and natural gas prices. These factors together have caused us to undertake a re-evaluation of the prudence of continuing with the EPU project.

One significant factor is the uncertainty regarding when the NRC would approve the needed license amendment to operate at the higher power level. We now estimate project implementation during the 2016 and 2017 refueling outages, assuming receipt of timely regulatory approvals. However, the possibility of further delays due to the NRC process could delay the implementation date beyond 2016 and 2017, further impacting the benefits to our customers.

On March 30, 2011, we provided to the Commission a copy of our updated analysis for the EPU, which we submitted to the Minnesota Public Utilities Commission as required under Minnesota law (EPU Filing). An additional copy of the EPU Filing is provided as Attachment A. The EPU Filing provides an in-depth analysis of the

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changes in circumstances surrounding the EPU project and the new projected costs and benefits of moving forward.

B. Request to continue consideration of an ADP for the Unit 2 steam generator replacement and postpone consideration of the ADP for the EPU.

When we filed our Application in 2010, both the Unit 2 steam generator replacement and the EPU were integral parts of our continued efforts to continue and improve the operations of Prairie Island. As demonstrated, since the time we filed our Application, the steam generator replacement continues to be prudent, but circumstances have changed regarding the EPU. Consequently, Xcel Energy respectfully requests that the Commission move forward with consideration of an ADP for the Unit 2 steam generators and suspend consideration for the EPU ADP.

The Unit 2 steam generator and the EPU projects are each discrete components of our larger capital efforts to maintain the safe and reliable operation of our nuclear plants and maximize their efficiency. However, each project can and should be evaluated on its own merits. Each project was developed to meet a different need and is on different implementation schedule. The installation of the Unit 2 steam generators is a prerequisite for the EPU, but not moving forward with the EPU does not impact the installation of the steam generators. Therefore, it is reasonable for the Commission to move forward with consideration of an ADP for the Unit 2 steam generators while postponing consideration of the EPU until a later time. To the extent the Commission prefers that the Company withdraw the EPU ADP, we can work with staff to do so and will file a new request.

Please feel free to contact me at 701-241-8632 should you have any questions.

SINCERELY,



DAVID H. SEDERQUIST
SR. CONSULTANT, REGULATION & FINANCE