

C. RATE CASE ADJUSTMENTS

Q. DID YOU MAKE RATE CASE ADJUSTMENTS TO THE 2011 CAPITAL BUDGET DATA IN THE PREPARATION OF YOUR TEST YEAR RATE BASE?

A. Yes. The following rate case adjustments were made to our test year rate base in order to present a representative level of rate base for our proposed test year.

10) Prairie Island Life Extension

Q. PLEASE DESCRIBE THE PRAIRIE ISLAND LIFE EXTENSION ADJUSTMENT.

A. The Commission approved a 10 year life extension of the Prairie Island nuclear generating plant in our last electric rate case. In our 2010 Annual Review of Remaining Lives (Docket No. E,G002/D-10-173), the Commission approved our request that the life of the Prairie Island nuclear production plant remain unchanged until the entire licensing renewal process is complete. We expect to receive approval from the Nuclear Regulatory Commission early in 2011. Therefore, we are requesting that the life of the Prairie Island nuclear production plant be extended 10 additional years. This request is further described by Ms. Lisa H. Perkett in her Direct Testimony. This adjustment reflects the impact of this change on the test year rate base.

The result of including this adjustment in the test year is reflected on Exhibit___(AEH-1), Schedule 3a, page 2, column 11 and Exhibit ___(AEH-1), Schedule 3b, page 3, column 24 and decreases test year revenue requirements by \$8,907,000. The adjustment affects the following rate base items: (i) reserve for depreciation decreases by \$4,485,000 and (ii) accumulated deferred income taxes increases by \$1,771,000. Support

for this adjustment can be found in Volume 4 Test Year Workpapers, Section VIII Adjustments, Tab A23.

11) Prairie Island End of Life Nuclear Fuel

Q. PLEASE DESCRIBE THE PRAIRIE ISLAND END OF LIFE NUCLEAR FUEL ADJUSTMENT.

A. Our adjustment to the Prairie Island end of life nuclear fuel is consistent with our request to extend the life of the Prairie Island nuclear generating plant by 10 years. This adjustment simply extends the life over which the cost of the unburned nuclear fuel at the time of shutdown of our nuclear generating units is depreciated. Therefore, we are requesting a change in end of life nuclear fuel, consistent with the life of the Prairie Island nuclear production plant. This request is further described by Ms. Perket in her Direct Testimony. This adjustment reflects the impact of this change on the test year rate base.

The result of including this adjustment in the test year is reflected on Exhibit___(AEH-1), Schedule 3a, page 2, column 12 and Exhibit ___(AEH-1), Schedule 3b, page 3, column 25 and decreases test year revenue requirements by \$655,000. The adjustment affects the following rate base items: (i) reserve for depreciation decreases by \$337,000 and (ii) accumulated deferred income taxes increases by \$138,000. Support for this adjustment can be found in Volume 4 Test Year Workpapers, Section VIII Adjustments, Tab A24.

12) Black Dog Units 3 and 4 Life Extension

Q. PLEASE DESCRIBE THE BLACK DOG UNITS 3 AND 4 LIFE EXTENSION ADJUSTMENT.

A. This adjustment reflects a life extension of our Black Dog generating plant units 3 and 4 by three years, to December 2015. This life extension is consistent with information filed with the Commission in our 2010 Resource Plan on August 2, 2010, in which we identify our plan to replace the remaining 270 MW of coal fired generation capacity at Black Dog with a 680 MW natural gas, combined cycle unit in 2016. This adjustment simply reflects the change in depreciation resulting from the life extension of these two units over their anticipated remaining life. This request is further described by Ms. Perkett in her Direct Testimony.

The result of including this adjustment in the test year is reflected on Exhibit___(AEH-1), Schedule 3a, page 2, column 13 and Exhibit ___(AEH-1), Schedule 3b, page 3, column 26 and decreases test year revenue requirements by \$7,795,000. The adjustment affects the following rate base items: (i) reserve for depreciation decreases by \$4,013,000 and (ii) accumulated deferred income taxes increases by \$1,639,000. Support for this adjustment can be found in Volume 4 Test Year Workpapers, Section VIII Adjustments, Tab A25.

13) Cash Working Capital

Q. HAVE YOU MADE ADJUSTMENTS TO THE INCOME STATEMENT THAT ALSO AFFECT TEST YEAR RATE BASE?

A. Yes. The adjustments to the income statement also led to an adjustment that increases cash working capital by \$4,594,000. This increase in cash

working capital increases test year revenue requirements by \$591,000. The result of including this adjustment is reflected on Exhibit___(AEH-1), Schedule 3a, page 2, column 15.