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Xcel Energy

Case No.: PU-12-813

Response To: North Dakota Public
Service Commission

Data Request
No.

NDPSC-8-068

Requestor: Snavelly King

SUPPLEMENT

Date Received: April 4, 2013

Question:

Subject: ASC No. 410 and FIN 47

Please refer to page 38 of the parent Company's 2011 10-K filing to the SEC. If not provided elsewhere, please provide the workpapers supporting the calculation of the asset retirement obligation of \$875 million as of December 31, 2010 and \$1.5 billion as of December 31, 2011. Please provide these workpapers in electronic format (Excel), with all formulae intact. Provide the calculations on a plant account-by-plant account basis. Also provide the workpapers in electronic format (Excel), with all formulae intact that support the calculation of the regulatory liability of \$463 million at 12/31/10 and \$439 million at 12/31/11.

Response:

The Company respectfully objects that this request is not reasonably calculated to lead to the discovery of relevant evidence, because the requested information is irrelevant to determining the North Dakota depreciation expense included in the test year revenue requirement. Asset Retirement Obligations relate to the required financial presentation necessary for every public trading entity. However, this Commission undertakes a regulatory review of removal in the depreciation expense developed through the depreciation study process. The creation of financial reporting standards does not supplant the regulatory process; in fact, the financial requirements accounted for only a portion of what regulators review. Subject to this objection and discussion, the Company notes that the amounts related to the regulatory liabilities are based on regulatory orders and/or approved rates, and the detail underlying these amounts can be seen on page 82 of our 2011 SEC Report 10-K.

SUPPLEMENT:

The Company records an asset retirement obligation (ARO) for all known and estimable legal obligations related to the retirement of assets. Upon recognition of an

ARO, a corresponding asset retirement cost (ARC) asset is recorded to reflect the net present value of the expected future value of related removal costs. Refer to Attachment A to this supplemental response for a listing of all the recorded AROs as of December 31, 2010 and 2011.

Once established, an ARO is accreted through the expected expenditure date up to the future estimated removal cost, and the related ARC is depreciated over the life of the underlying asset. As a regulated entity, on a monthly basis, the Company reclassifies the accretion and depreciation expense related to its AROs to a regulatory asset to meet the requirements of ASC 410. However, the financial reporting requirements of ASC 410 neglect to account for the recovery of non-legal removal costs associated with standard utility industry ratemaking procedures. For ratemaking purposes, the total expected removal costs for all legal and non-legal obligations are accrued through depreciation expense and recorded as accrued costs of removal, an offset to rate base. Since the recovery of all legal and non-legal costs are accrued through this process, all ARO liabilities, ARC assets, and related regulatory assets are not presented in ratemaking, as doing so would lead to over-recovery of the expected legal removal costs. Therefore, all ARO-related amounts presented in the Company's Annuals SEC Form 10-K are identified solely for presentation purposes to meet the reporting requirements of ASC 410.

The accrued costs of removal (both legal and non-legal) described above are recovered through the Commission-approved depreciation expense. The Company records these accrued costs of removal as an offset to rate base and included within accumulated depreciation FERC Account 108. For SEC reporting, the Company reclassifies these accrued costs to a regulatory liability in compliance with SEC reporting requirements. Per page 82 of the Company's 2011 SEC Annual Form 10-K, the Company has accrued costs of removal of \$400.2 million and \$382.1 million as of December 31, 2010 and 2011, respectively. Please refer to Attachment B to this supplemental response for a listing of the amounts at each period by functional class.

The Company's recovery of all asset retirement obligations (ARO) costs – both legal obligations as required under ASC 410 and FIN 47 (legal obligations) and asset removal (non-legal obligations) – is consistent with longstanding practice in North Dakota.

The North Dakota Public Service Commission has adopted Minnesota's depreciation parameters as a baseline by which it will prospectively determine appropriate depreciation methodologies. *In Re Otter Rail Power Company*, Case No. PU-401-93-520, ORDER APPROVING SETTLEMENT (Sept. 22, 1993) (“[t]he second reduction related to a decrease in depreciation expense when the Commission adopted the Minnesota depreciation parameters for North Dakota operations”). In Minnesota, the Company includes both legal obligations and non-legal obligations in its depreciation.

In Case No. PU-06-525, the Commission approved the following regulatory treatment for plant retirements:

First, the Company shall continue to recover the estimated net present value of the cost of retirement over the useful life of an asset. Second, for regulatory purposes, the Company shall continue to include all retirements as part of accumulated depreciation, which in turn results in an offset to rate base equal to the amount of the accumulated depreciation. Should at any future date, there be change in regulation or other event that would result in a change in the above-described process, the Company agrees to work with the Commission to ensure that any accumulated depreciation amounts for retirement purposes are considered and appropriately addressed as part of the change.

Re Northern States Power Company, Case No. PU-06-525, ORDER ADOPTING SETTLEMENT (June 13, 2007).

In Case No. PU-07-776, the ability of the Company to include non-legal obligations in its depreciation recovery was fully litigated. *See In the Matter of the Application of Northern States Power Company, a Minnesota Corporation, for Authority to Increase Rates for Electric Service in North Dakota*, Case No. PU-07-776, Direct Testimony of Michael J. Majoros, JR at pp. 9-21 (May 2008); Rebuttal Testimony of Dane A. Watson at pp. 16-28 (June 13, 2008). In settlement of these issues, the Commission approved the agreement between the Company and Advocacy Staff:

Both Parties agree that, unless directed otherwise by the Commission, rate recovery – past, present, and future – for the removal and retirement of Company utility property will be used solely for the retirement of the Company’s utility property and recognized as a regulatory liability.

ORDER ADOPTING SETTLEMENT, Settlement Agreement at p. 8 (Jan. 14, 2009).

Although such settlement agreements are not binding future precedent, the Company believes that the accounting in the settlement is reasonable, that the issues have been fully addressed multiple times including as recently as 2009, and have been historically accepted by the Commission. Consequently, the Company has accounted for both legal obligations and non-legal obligations in a manner consistent with the approach that has been accepted by the Commission. The Company recognizes that the

Commission may change this methodology, but believes it has adopted a historically-acceptable method and mitigated any concerns with respect to the accumulation of non-legal obligations by recognizing the accrued non-legal obligations as a regulatory liability and agreeing to utilize these funds for the retirement of the Company's utility property.

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Recorded Asset Retirement Obligations (ARO) as of December 31, 2011

<u>Plant Account</u>	<u>ARO Liability</u>	<u>ARC Asset</u>	<u>ARC Reserve</u>	<u>Regulatory Asset</u>	<u>Description</u>
317 - Steam Production	\$ 42,964.39	\$ (21,184.24)	\$ 3,294.93	\$ 67,443.56	Steam production radiation sources
317 - Steam Production	3,456,662.17	2,189,400.86	174,074.84	1,441,336.15	Steam production asbestos removal - Black Dog
317 - Steam Production	2,787,025.82	(576,933.08)	26,819.64	3,390,778.54	Steam production asbestos removal - MN Valley
317 - Steam Production	1,205,921.38	490,432.39	423,680.39	1,139,169.38	Steam production asbestos removal - Red Wing
317 - Steam Production	1,483,565.94	283,838.80	165,452.28	1,365,179.42	Steam production asbestos removal - Riverside
317 - Steam Production	338,842.57	(5,784,865.84)	406,632.22	6,530,340.63	Steam production asbestos removal - Sherco
317 - Steam Production	1,205,921.38	490,432.39	423,680.39	1,139,169.38	Steam production asbestos removal - Wilmarth
317 - Steam Production	30,989,257.85	13,240,331.83	1,269,165.62	19,018,091.64	Steam production ash containment
	41,510,161.50	10,311,453.11	2,892,800.31	34,091,508.70	
326 - Nuclear Production	631,703,079.10	168,982,167.71	37,662,447.91	500,383,359.30	Nuclear decommissioning - Monticello
326 - Nuclear Production	377,961,363.53	(16,872,254.61)	31,497,981.52	426,331,599.66	Nuclear decommissioning - Prairie Island Unit 1
326 - Nuclear Production	473,076,437.64	18,879,787.24	28,975,197.15	483,171,847.55	Nuclear decommissioning - Prairie Island Unit 2
	1,482,740,880.27	170,989,700.34	98,135,626.58	1,409,886,806.51	
				(1,315,124,603.62)	Contra regulatory asset for decommissioning trust fund investments
				94,762,202.89	Net Nuclear Regulatory Asset
347 - Other Production	13,654,296.29	11,767,446.38	1,111,894.25	2,998,744.16	Wind Farm Removal - Grand Meadow
347 - Other Production	26,861,201.42	25,671,214.81	1,108,723.62	2,298,710.23	Wind Farm Removal - Nobles
	40,515,497.71	37,438,661.19	2,220,617.87	5,297,454.39	
374 - Electric Distribution	15,699,780.22	15,474,098.59	129,036.15	354,717.78	Electric distribution
388 - Gas Distribution	295,246.73	(675,009.57)	329,774.62	1,300,030.92	Gas distribution
399.1 - Common	1,134,825.62	(1,829,331.13)	(1,829,331.13)	1,134,825.62	Common general plant asbestos removal
Total	\$ 1,581,896,392.05	\$ 231,709,572.53	\$ 101,878,524.40	\$ 136,940,740.30	

Recorded Asset Retirement Obligations (ARO) as of December 31, 2010

<u>Plant Account</u>	<u>ARO Liability</u>	<u>ARC Asset</u>	<u>ARC Reserve</u>	<u>Regulatory Asset</u>	<u>Description</u>
317 - Steam Production	\$ 38,471.82	\$ (23,079.86)	\$ 4,534.55	\$ 66,086.23	Steam production radiation sources
317 - Steam Production	3,307,302.31	2,189,400.86	72,886.93	1,190,788.38	Steam production asbestos removal - Black Dog
317 - Steam Production	2,636,372.40	(576,933.08)	138,281.66	3,351,587.14	Steam production asbestos removal - MN Valley
317 - Steam Production	1,177,704.59	490,432.39	412,555.07	1,099,827.27	Steam production asbestos removal - Red Wing
317 - Steam Production	1,420,384.52	283,838.80	161,107.80	1,297,653.52	Steam production asbestos removal - Riverside
317 - Steam Production	320,016.29	(5,784,865.84)	702,640.04	6,807,522.17	Steam production asbestos removal - Sherco
317 - Steam Production	1,177,704.59	490,432.39	412,555.07	1,099,827.27	Steam production asbestos removal - Wilmarth
317 - Steam Production	12,814,572.99	(4,426,881.85)	1,472,370.87	18,713,825.71	Steam production ash containment
	<u>22,892,529.51</u>	<u>(7,357,656.19)</u>	<u>3,376,931.99</u>	<u>33,627,117.69</u>	
326 - Nuclear Production	289,891,288.57	(155,272,794.37)	43,845,789.78	489,009,872.72	Nuclear decommissioning - Monticello
326 - Nuclear Production	253,760,361.25	(121,869,100.37)	38,682,424.10	414,311,885.72	Nuclear decommissioning - Prairie Island Unit 1
326 - Nuclear Production	265,822,689.20	(167,494,535.38)	35,266,549.33	468,583,773.91	Nuclear decommissioning - Prairie Island Unit 2
	<u>809,474,339.02</u>	<u>(444,636,430.12)</u>	<u>117,794,763.21</u>	<u>1,371,905,532.35</u>	
				<u>(1,321,042,411.79)</u>	Contra regulatory asset for decommissioning trust fund investments
				<u>50,863,120.56</u>	Net Nuclear Regulatory Asset
347 - Other Production	12,791,838.35	11,767,446.38	623,853.78	1,648,245.75	Wind Farm Removal - Grand Meadow
347 - Other Production	25,760,850.14	25,671,214.81	85,286.45	174,921.78	Wind Farm Removal - Nobles
	<u>38,552,688.49</u>	<u>37,438,661.19</u>	<u>709,140.23</u>	<u>1,823,167.53</u>	
374 - Electric Distribution	3,088,381.48	3,014,892.82	48,951.96	122,440.62	Electric distribution
388 - Gas Distribution	277,541.62	(675,009.57)	340,133.20	1,292,684.39	Gas distribution
399.1 - Common	1,075,942.98	(1,829,331.13)	(1,829,331.13)	1,075,942.98	Common general plant asbestos removal
Total	<u>\$ 875,361,423.10</u>	<u>\$ (414,044,873.00)</u>	<u>\$ 120,440,589.46</u>	<u>\$ 88,804,473.77</u>	

Accrued Costs of Removal by Functional Class

	<u>12/31/10 Balance</u>		<u>12/31/11 Balance</u>
Common General	\$ (4,105,501.56)	\$	(5,225,010.67)
Electric Distribution	216,044,360.85		223,522,024.80
Electric General	(152,465.91)		(444,052.78)
Electric Production	35,352,048.62		5,301,959.88
Electric Transmission	73,930,883.01		76,842,323.76
Gas Distribution	72,037,693.27		74,766,170.96
Gas General	28,702.09		10,813.46
Gas Production	174,852.85		180,518.48
Gas Storage	383,380.71		395,767.11
Gas Transmission	6,538,903.42		6,738,529.03
	<u>\$ 400,232,857.35</u>	<u>\$</u>	<u>382,089,044.03</u>