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Fargo, ND 58102

February 21, 2017

—Via Email and U.S. Mail—

Darrell Nitschke, Executive Director
North Dakota Public Service Commission
State Capitol Building, Dept. 408
600 East Boulevard
Bismarck, ND 58505-0480

RE: 2017 ANNUAL REVIEW OF REMAINING LIVES

Dear Mr. Nitschke:

Pursuant to the approved Settlement Agreement in Case NO. PU-12-813, Northern States Power Company submits this letter to inform the North Dakota Public Service Commission that on February 17, 2017 Xcel Energy filed its *2017 Review of Remaining Lives* with the Minnesota Public Utilities Commission (MPUC), Docket No. E,G002/D-17-147.

Our *2017 Review of Remaining Lives* provides recommendations stemming from the annual review of electric and natural gas production and natural gas storage asset lives and net salvage rates. The filing is available on the MPUC website.

We requested approval of the following:

- One year passage of time adjustments for all electric and natural gas production and natural gas storage facilities, with the exception of the units discussed in the following bullets. Subtracting one year from the present certified remaining life results in the proposed remaining lives as of January 1, 2017. This adjustment does not change the annual depreciation accrual, but simply reflects the aging of these production facilities since January 1, 2016.

- Modifications to the remaining lives of the following natural gas combustion turbine plants:

Plant	Incr./ (Decr.) in Life	Change in Expense
Anson 2 & 3	6 years	(\$758,901)
Blue Lake 1-4	(4.5) years	\$606,183
Granite City	(4.5) years	\$292,088
Net Impact		\$139,369

- A new 12-year life for the NSP-Minnesota owned facilities of the St. Croix Falls Hydro Production Plant owned by NSP-Wisconsin, a wholly owned subsidiary of NSP-Minnesota. As approved in our 2015 Remaining Life filing, there would have been no remaining life as of January 1, 2016 for this facility. We are requesting a remaining life for the new capital project at the facility that was completed in July 2016. The estimated 2017 depreciation expense is \$215,000. This request avoids expensing the entire \$2.3 million addition through depreciation in 2016.
- Establishment of a 24.8 year remaining life and 8.5 percent net salvage rate for the 200-megawatt Courtenay wind farm located in North Dakota. Based on a remaining life of 25 years as of the November 2016 in-service date, the remaining life as of January 1, 2017 is 24.8 years. The Company estimates a 2017 depreciation expense of about \$12.5 million.

Additionally, in compliance with the MPUC's Order in our 2015 Remaining Life filing¹, we provided a discussion of the following items:

- A description and schedule that identifies, and provides a rationale for, differences between our proposed depreciation lives and Integrated Resource Plan² lives of electric production plant facilities.
- An update of the removal activity and costs for the following generating plants: Black Dog Units 3 and 4, which was retired in April 2015, ending more than 60 years of coal-fired operations at the site; Minnesota Valley, which last burned coal in 2004; and the Key City plant, four natural gas and oil units that generated a total of 64 MW until its end of life in 2012.

¹ Minnesota Docket No. E,G002/D-15-46, November 13, 2015 Order.

² Minnesota Docket No. E002/RP-15-21

Lastly, to comply with the Federal Energy Regulatory Commission (FERC) accounting requirements, the Company also requested that the MPUC approve certain amortization rates for the “unwinding” of regulatory assets that were created by previous MPUC Orders to address the Company’s theoretical reserve surplus. A theoretical reserve is calculated by determining what the depreciation reserve would be at a point in time, if current information and assumptions about the life, salvage, and cost of removal had been known since the in-service date of each asset. In the Company’s 2012 depreciation study, the theoretical reserve was lower than the actual book depreciation reserve, resulting in a \$311.3 million total Company reserve surplus. To realign the actual depreciation reserve with the theoretical reserve, the future depreciation expense is reduced systematically by a portion of the surplus, typically over the average remaining life of the assets. However, in this case the MPUC selected an 8 year amortization period. The Commission Orders defining this period is discussed in the application.

For the reasons provided in the application, approval of the amortization rates will not change the depreciation rates or the amount of expense that is calculated for rate making. In other words, there is no rate or revenue impact associated with this request, which is driven solely by compliance with FERC accounting rules.

Overall, the *2017 Review of Remaining Lives* reflects an increase in total Company depreciation expense of \$139,369.

Please contact me at dave.sederquist@xcelenergy.com or (701) 241-8632 if you have any questions regarding this filing.

Sincerely,

A handwritten signature in blue ink that reads "David H. Sederquist". The signature is written in a cursive, flowing style.

DAVE SEDERQUIST
SR. REGULATORY/FINANCIAL CONSULTANT