



414 Nicollet Mall
Minneapolis, Minnesota 55401

February 14, 2014

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

RE: Northern States Power Company, a Minnesota corporation and
Northern States Power Company, a Wisconsin corporation
Docket No. ER14-____-000
Interchange Agreement – Annual Update and E-Tariff Submission
Revised Tariff Pages Effective January 1, 2014

Dear Ms. Bose:

Pursuant to Federal Power Act Section 205, 16 U.S.C. § 824d (2006), and Section 35.13 of the Rules and Regulations of the Federal Energy Regulatory Commission (“Commission” or “FERC”), 18 C.F.R. § 35.13 (2013), Northern States Power Company, a Minnesota corporation (“NSPM”) and Northern States Power Company, a Wisconsin corporation (“NSPW”) (jointly the “NSP Companies”), submit an electronic tariff filing of revisions to the “Restated Agreement to Coordinate Planning and Operations and Interchange Power and Energy between Northern States Power Company (Minnesota) and Northern States Power Company (Wisconsin)” (hereafter “Interchange Agreement” or “Agreement”).

Although the NSP Companies are filing all of the Exhibits to the Interchange Agreement to comply with the Commission’s eTariff processes, only the following Interchange Agreement exhibit are being restated or revised:

- Exhibits VII, VIII, IX
- Exhibit V, Schedule 1 (new text)
- Exhibit V, Schedule 1.1 (new text)
- Exhibit V, Schedule 2 (new text)
- Exhibit V, Schedule 3 (new text)
- Exhibit V, Schedule 4.1 (new text)
- Exhibit V, Schedule 12.1 (new text)
- Exhibit VI, Schedule 3 (new text)
- Exhibit X

Pursuant to Section 14.2 of the Interchange Agreement, Exhibits VII, VIII, and IX are not subject to automatic adjustment and may only be changed by a Section 205 filing. In addition to required annual updates to Exhibits VII, VIII, and IX, the NSP Companies also propose

modifications to certain schedules in Exhibit V, VI, and X to (i) include costs related to intangible software directly related to the production and transmission function as agreed by the NSP Companies; (ii) include costs related to electric storage equipment directly related to the production and transmission functions to incorporate the Commission's new accounting requirements in FERC Order No. 784;¹ and (iii) make minor administrative tariff updates to the Interchange Agreement exhibits. The NSP Companies propose the revised tariff sheets be effective January 1, 2014, and respectfully request any waiver necessary for the tariff sheets to be effective on the date requested.

A. Background

NSPM is an investor-owned Minnesota corporation engaged in, *inter alia*, the business of generating, transmitting, distributing, and selling electric power and energy and related services in the States of Minnesota, North Dakota, and South Dakota. NSPW is an investor-owned Wisconsin corporation engaged in, *inter alia*, the business of generating, transmitting, distributing, and selling electric power and energy and related services in the States of Wisconsin and Michigan. The NSP Companies are both wholly-owned utility operating company subsidiaries of Xcel Energy Inc. Xcel Energy Services Inc. ("XES") is the service company for the Xcel Energy holding company system, and represents the Xcel Energy Operating Companies in proceedings before the Commission.²

The Interchange Agreement is a formula rate which provides for charges between NSPM and NSPW for certain electric production and transmission costs related to the NSP Companies' integrated electric system (the "NSP System"). Pursuant to the terms of the Agreement, the NSP Companies annually restate or update certain exhibits to the Interchange Agreement.³ The 2013 update, which updated Exhibits VII, VIII and IX and made certain other Exhibit revisions, was accepted for filing effective January 1, 2013, by letter order dated June 6, 2013 in Docket No. ER13-954-000.

On December 27, 2013, the NSP Companies submitted a request in Docket No. ER14-846-000 to modify certain exhibits to the formula rate effective January 1, 2013, in order to recognize a change to NSPM's book recovery (i.e., depreciation and amortization) of electric transmission plant, recently ordered by the Minnesota Public Utilities Commission ("MPUC"), to be effective

¹ *Third-Party Provision of Ancillary Services; Accounting and Financial Reporting for New Electric Storage Technologies*, 144 FERC ¶ 61,056 (2013). The NSP Companies do not expect to record any costs in the new accounts ordered by Order No. 784 in 2014, but propose to modify the Interchange Agreement exhibits to reflect the accounts ordered by the Commission so that future costs can be reflected without further amendments to the Agreement.

² The other Xcel Energy Operating Companies are Public Service Company of Colorado and Southwestern Public Service Company.

³ See Article XIV of the Interchange Agreement. In the 2001 annual filing, the NSP Companies restated the Interchange Agreement in its entirety effective January 1, 2001. The 2011 annual update, filed in Docket Nos. ER11-3234-000 and ER11-3235-000, submitted the Interchange Agreement in eTariff format.

January 1, 2013. The Interchange Agreement changes submitted in Docket No. ER14-846-000 are pending Commission action.

B. Statement of Basis for Revised Tariff Sheets

As noted, the annual filing of revised Exhibits VII, VIII and IX is required by Article XIV of the Interchange Agreement which states:

14.2 Features Not Automatically Adjusting. It is the intent of the Parties that the values and data specified in Exhibits VII, VIII, IX and X shall not be subject to automatic adjustment and may be changed only by filing revised sheets as a rate change under the Federal Power Act. The Parties contemplate that a revised Exhibit VIII will be filed annually at the end of each calendar year to specify the projected average monthly peak demands for the succeeding calendar year, but that if the projected demands are not available before commencement of the calendar year to which they apply, they may be filed as soon in that calendar year as feasible, with a request, in which all Parties shall concur, that they be made effective as of the first day of the calendar year.

The restatement of Exhibit VII without change is permitted by Exhibit V, Schedule 6, which states in pertinent part:

If, for whatever reason, FERC ceases to issue or fails to issue a quarterly adjusted generic rate of return on common equity effective for November 1 of a year,⁴ the NSP Companies shall file with FERC by December 15 of the year either a revised Exhibit VII or the existing Exhibit VII with a request that it be allowed to become effective as of January 1 of the following year. The rate of return on common equity proposed in a filing shall be in the NSP Companies' sole discretion. NSP shall bear the burden of justifying any increase or decrease in the rate of return on common equity. The NSP Companies shall request that any determination by FERC on such filing shall be made effective as of January 1 of the year following the filing, and the NSP Companies shall make such payments among themselves as may be required to adjust billings for sales made on or after the effective date of the determination.

Section C of this transmittal letter discusses the proposed revisions to the Interchange Agreement exhibit tariff pages in more detail. Redline versions of the complete Exhibit tariff pages showing

⁴ At the time of the certain settlement agreements regarding the 1984 Interchange Agreement filing, the Commission applied a policy of establishing the rate of return on common equity for electric utilities using a formula approach. *See Generic Determination of Rate of Return on Common Equity for Public Utilities*, Docket No. RM84-15-000, Order No. 420 (May 20, 1985). The 1984 agreement, as amended and restated in 2001, thus referred to this process. The Commission has long since ceased this practice.

the proposed revisions to the Interchange Agreement exhibits effective January 1, 2014 are included with this filing as an attachment in the XML package. Also attached as part of this filing are Appendix A setting forth certain financial impacts of the proposed average monthly peak demands and depreciation rates on the NSP Companies, Appendix B, a South Dakota Public Utilities Commission (“SDPUC”) rate order and depreciation rate summary, and Appendix C, a Public Service Commission of Wisconsin (“PSCW”) depreciation rate order.

C. Proposed Revised Tariff Sheets Effective January 1, 2014

1. Exhibit VII - Specification of Rate of Return on Common Equity

Exhibit VII sets forth a specification of the rate of return on common equity to determine the overall cost of capital. The NSP Companies are restating the existing Exhibit VII because the Commission has ceased to issue a quarterly adjusted generic rate of return on common equity. The NSP Companies only bear the burden of justifying an increase or decrease in the rate of return on common equity. Here, the NSP Companies are proposing no change to the rate of return on common equity for 2014 from the level accepted in Docket No. ER13-954-000, so a statement of impact on each of the NSP Companies is not required.

2. Exhibit VIII – Specification of Average Monthly Peak Demands

Exhibit VIII sets forth the specification of average monthly coincident peak demands for calendar year 2014 for each of the NSP Companies. These coincident peak demands were determined using the same methodology as the previous Exhibit VIII accepted in Docket No. ER13-954-000. Coincident peak demands are based upon three years’ data consisting of 18 months of actual and 18 months of projected peak demands.

Enclosed with this filing as Appendix A, Page 1 is the calculation of the 2014 36-month coincident peak demand ratios for each of the NSP Companies.⁵ These demand ratios are based on the average monthly coincident peak demands for calendar years 2012-2014 as set forth in Exhibit VIII. Appendix A, Page 2, is a statement of the financial impacts of these coincident peak demands on each of the NSP Companies. While Appendix A provides support of certain calculations in the Interchange Agreement, it is not part of the Interchange Agreement and thus does not need to be filed in e-Tariff format.

⁵ Effective January 1, 2012 and January 1, 2013, NSPW’s ten requirements wholesale customers (approximately 106 MW of peak load) ceased purchasing power supplies from NSPW and began purchasing requirements supplies from another provider. In 2012, a large NSPW retail customer (Verso Paper) ceased manufacturing operations at its facilities, and certain requirements wholesale customers converted to non-requirements services. The 36 month coincident peak demands and resulting cost allocations reflect these load changes.

3. Exhibit IX – Specification of Depreciation Rates

Exhibit IX sets forth a specification of the depreciation rates currently approved for the NSP Companies by their respective state regulatory agencies. The modifications reflect, *inter alia*, changes in service lives, net salvage rates and mortality curves approved by the state regulatory bodies which have jurisdiction over NSPM and NSPW. The MPUC, the North Dakota Public Service Commission (“NDPSC”) and the SDPUC approved NSPM’s currently effective depreciation rates in the following dockets:

- MPUC Docket No. E,G002/D-11-144, Annual Review of Remaining Lives 2010, order dated September 8, 2011; MPUC Docket No. E,G002/D-07-1528, Average Service Life and Vintage Group Depreciation Studies for 2007, order dated September 22, 2008; and MPUC Docket No. E002/GR-12-961, Application for Authority to Increase Electric Rates in Minnesota, order dated September 3, 2013;
- NDPSC Case No. PU-10-657, Application for Authority to Increase Rates for Electric Service in North Dakota, order dated February 29, 2012; and
- SDPUC Docket No. EL-12-046, Application for Authority to Increase Electric Rates in South Dakota, order dated April 18, 2013.

The modifications also reflect the NSPW depreciation rates approved by the PSCW in Docket No. 4220-DU-108, order dated October 3, 2013.

With the exception of the SDPUC order in Docket No. EL-12-046 and the PSCW Docket No. 4220-DU-108, all of the above listed state commission orders have been submitted to the Commission either (i) on April 8, 2013, in Docket No. ER13-954-001, the 2013 annual update to the Interchange Agreement, or (ii) on December 29, 2013, in Docket No. ER14-846-000, the recently proposed revisions to the Interchange Agreement filing, which provided a copy of the September 2013 MPUC order in Docket No. E002/GR-12-961. The SDPUC order in Docket No. EL-12-046 and the associated stipulation between NSPM and the SDPUC staff are attached as Appendix B-1 and Appendix B-2, respectively. Appendix B-3 provides a summary of the depreciation rates reflected in the SDPUC stipulation and order.⁶ The PSCW order in Docket No. 4220-DU-108 is attached as Appendix C. The NSP Companies respectfully request that the Commission waive any requirement to file the other depreciation order supporting data which has been previously filed with the Commission and available in eLibrary or eTariff.

Appendix A, Page 3 provides a statement of the impacts of the depreciation rates on each of the NSP Companies.

⁶ The currently effective South Dakota state production and transmission depreciation rates were supported by testimony filed by NSPM and the SDPUC staff. The case was then resolved by “black box” settlement, with no depreciation rates expressly identified in the stipulation or order.

4. Modifications to Exhibit V, VI and X

The NSP Companies propose to make modifications to Exhibits V, VI and X to include costs for intangible software directly related to the production and transmission function as agreed by the NSP Companies. In addition, we propose the addition of costs for electric storage equipment directly related to the production and transmission functions to incorporate the Commission's new accounting requirements in FERC Order No. 784. Finally, the NSP Companies propose miscellaneous minor administrative tariff updates not specifically addressed below. The reasons for each change are as follows.

a) Exhibit V, Schedule 1 – Electric Plant In Service

The NSP Companies propose to modify Exhibit V, Schedule 1 Electric Plant in Service to expressly include Intangible Software Plant Investment related to production and transmission facilities recorded in FERC Account 303 Miscellaneous Intangible Plant as agreed by the Parties. These intangible software costs are related to the Electric Plant in Service already allocated under the Interchange Agreement, and are necessary to the operation of the NSP System. We also request an administrative tariff text modification to identify nuclear relicensing investment recorded in FERC Account 302 related to nuclear plant. Finally, we request that the development of demand related Production Plant Investment include costs recorded in FERC Account 348 Electric Storage Equipment – Production consistent with Order No. 784. The NSP Companies expect they may utilize in the future the new FERC Accounts established in Order No. 784 for energy storage equipment and propose to modify the list of accounts includable in the Interchange Agreement formula procedures used to determine energy and demand-related production expense. The change will provide for a reasonable allocation of future energy storage equipment costs between the NSP Companies.

b) Exhibit V, Schedule 2 – Accumulated Provision For Depreciation

The NSP Companies propose to modify Exhibit V, Schedule 2 Accumulated Provision For Depreciation to include the accumulated provision for amortization of electric utility plant for Intangible Plant Investment related to production and transmission facilities recorded in FERC Account 111. This is an administrative tariff text modification to add “intangible” to the list of functions stated, which is consistent with the inclusion of intangible plant investment in electric plant in service.

c) Exhibit V, Schedule 3 – Accumulated Deferred Income Taxes

The NSP Companies propose to modify Exhibit V, Schedule 3 Accumulated Deferred Income Taxes to include the accumulated provision for amortization of electric utility plant for Intangible Plant Investment related to production and transmission facilities recorded in FERC Accounts 190 and 281 – 283. This is an administrative tariff text modification to add

“intangible” to the list of functions stated, which is consistent with the inclusion of intangible plant investment in electric plant in service.

d) Exhibit V, Schedule 12.1 – Fixed Regional Market Operating and Maintenance Expense

The NSP Companies are load serving entities and market participant in the Midcontinent Independent System Operator, Inc. (“MISO”) regional energy and ancillary services market. On Exhibit V, Schedule 12.1, the NSP Companies propose an administrative tariff text modification to delete the word “Production” and replace it with “Regional Market” to properly describe fixed Regional Market operating and maintenance expense. (In addition, the NSP Companies note that they are making minor changes to Exhibit V, Schedules 1.1 and 4.1, to modify the references to MISO to reflect the new corporate name adopted in 2013.)

e) Exhibit VI, Schedule 3 – Net Purchased Power Energy Costs

The NSP Companies propose to modify Exhibit VI, Schedule 3 Net Purchased Power Energy Costs to include FERC Account 555.1 – Power Purchased for Energy Storage Operations. This change is consistent with Order No. 784 as discussed above.

f) Exhibit X – Demand & Energy Classification of Production Expenses

Exhibit X includes and classifies FERC Uniform System of Account No. 548.1 – Operation of energy storage equipment and Account No. 553.1 Maintenance of energy storage equipment both as a demand-related production expense, and Account No. 555.1 Purchased power for storage operations as billed. This change is consistent with Order No. 784 as discussed above.

D. E-Tariff Compliance

As described in further detail in Dockets No. ER11-3234-000 and ER11-3235-000, the NSP Companies selected NSPM as the party that will submit the annual updates to the Interchange Agreement. NSPW’s Certificate of Concurrence was filed in Docket No. ER11-3235-000. The proposed tariff changes to the Interchange Agreement are included with this filing in both clean and redline format as an attachment in the XML package, to be effective January 1, 2014.

E. Request for Acceptance for Filing, Requests for Waiver

The NSP Companies request the Commission accept the revised tariff sheets for filing effective January 1, 2014. The NSP Companies request a waiver of the Commission’s notice

requirements pursuant to Part 35, if necessary, as well as any other waivers which may be necessary for the revised tariff sheets to be accepted for filing effective on the date requested.⁷

In *Central Hudson Gas & Electric Corporation*,⁸ the Commission stated that it would generally grant waivers of the 60-day prior notice requirement for uncontested filings that do not change rates. Based upon the above, a waiver is appropriate for this filing for the following reasons:

- (1) the Interchange Agreement is a longstanding formula rate that only affects the allocation of system costs between two affiliated and regulated electric utilities. In addition, neither of the NSP Companies serve any wholesale requirements customers whose rates would be affected by the changes proposed herein.
- (2) Section 14.2 of the Interchange Agreement specifically contemplates that revisions may be filed after the start of a calendar year if the projected demands are not available before commencement of the calendar year to which they apply, as occurred here; and
- (3) Accepting the tariff changes on the date requested will allow the charges between the NSP Companies to reflect the updated cost allocation formulas for the entire 2014 fiscal year. The Commission has previously accepted the annual revisions to the Interchange Agreement effective January 1 of the filing year even though the revisions were not filed until sometime after January 1.

The NSP Companies also request that the Commission waive any requirement to refile depreciation supporting data, specifically state regulatory filings and orders previously filed with the Commission and available in eLibrary. The supporting data consists of nearly 500 pages of state regulatory filings made by the NSP Companies and orders from state regulatory commissions approving or modifying the NSP Companies' depreciation rates. This information was filed with the Commission less than a year ago in Docket No. ER13-954-001, or in December 2013 in Docket No. ER14-846-000. In Docket No. ER13-954-001, the Company made a similar request to waive the requirement to file the supporting documents. In a letter order dated June 6, 2013, the Commission noted the Company's request for a waiver, but determined that it was "premature to address, [in that proceeding], potential waiver of the filing requirements in future section 205 filings."⁹ The NSP Companies respectfully requests that the Commission grant the waiver now that the supporting information is available to staff and interested stakeholders through the Commission's eLibrary system.

⁷ See *Prior Notice and Filing Requirements under Part II of the Federal Power Act*, Docket No PL93-2-002, which states that a waiver of the 60 day notice period will be granted for certain amendments to pre-existing rate schedules. Specifically, the NSP Companies request waiver of the provisions of Exhibit V of the Agreement, which by its terms would have required the annual update to certain exhibits be submitted by December 15, 2011.

⁸ 60 FERC ¶ 61,106 (1992), *reh'g denied* 61 FERC ¶ 61,089 (1992).

⁹ *Northern States Power Company, a Wisconsin Corporation & Northern States Power Company, a Minnesota Corporation*, 143 FERC ¶ 61,220 at n.12.

F. Contents of Filing; Notice; Service

Pursuant to the Commission's filing requirements and in compliance with the e-Tariff Final Rule, the filing contains the revised Exhibits as an attachment in the XML package and:

- a. This transmittal letter;
- b. The proposed revised Interchange Agreement Exhibits in clean format as an attachment in the XML package;
- c. The proposed revised Interchange Agreement Exhibits in redline format as an attachment in the XML package, showing changes from the proposed Exhibits filed in Docket No. ER14-846-000 on December 27, 2013;
- d. The following appendices:
 - i. Appendix A, sets forth the proposed 2014 36-month coincident peak demands, the financial impact of these proposed demands on each of the NSP Companies, and a statement of impact regarding depreciation rates on each of the NSP Companies;
 - ii. Appendix B, the SDPUC rate case order issued April 18, 2013 approving the Stipulation between NSPM and SDPUC staff to resolve the rate case, a copy of the Stipulation, and a summary of NSPM depreciation rates for calculating rates for customers in South Dakota pursuant to the Stipulation and order;
 - iii. Appendix C, the PSCW order issued October 3, 2013 approving NSPW remaining lives, average lives, and net salvage rates; and
 - iv. Appendix D, the Service List for this filing.

A copy or notice of this filing will be sent by e-mail to all State Commissions with jurisdiction over the NSP Companies. Appendix D provides the list of State Commissioners to be served notice. The NSP Companies will also provide a courtesy copy of this filing to Ms. Penny Murrell, Director of the Division of Electric Power Regulation – Central. Pursuant to 18 C.F.R. § 35.2(d), a copy of this filing will be available for public inspection at the offices of NSPM at 414 Nicollet Mall, Minneapolis, Minnesota; and NSPW's office at 1414 W. Hamilton Avenue, Eau Claire, Wisconsin.

G. Correspondence and Communications

Please send all communications and correspondence in this docket to:

Ms. Kimberly Bose
February 14, 2014
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H. Conclusion

The NSP Companies thus respectfully request the Commission accept the revised tariff sheets to the Interchange Agreement for filing effective January 1, 2014. Please direct any questions regarding this filing to Mr. Jeff Hafner (612-330-7622), Ms. Anne E. Heuer (612-330-6181) or Ms. Mara N. Koeller (612-215-4605).

Sincerely,

/s/ *James P. Johnson*

James P. Johnson
Assistant General Counsel

Xcel Energy Services Inc., on behalf of
Northern States Power Company, a Minnesota corporation and
Northern States Power Company, a Wisconsin corporation

Enclosures