



414 Nicollet Mall
Minneapolis, Minnesota 55401

December 27, 2013

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
New and Revised Tariff Pages Effective January 1, 2013

Dear Ms. Bose:

Pursuant to Section 205 of the Federal Power Act (“FPA”), 16 U.S.C. § 824d, and Sections 35.13 and 35.15 of the Federal Energy Regulatory Commission’s (“FERC” or the “Commission”) regulations, 18 C.F.R. §§ 35.13 and 35.15, Northern States Power Company, a Minnesota corporation (“NSPM”) and Northern States Power Company, a Wisconsin corporation (“NSPW”) (jointly the “NSP Companies”), submit proposed 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”). The Interchange Agreement revisions are presented in electronic format compliant with the Commission’s Order No. 714.¹

As discussed below, the proposed tariff sheets include the following modifications:

Exhibit V (revised)
Exhibit V, Schedule 4.2 (new)
Exhibit V, Schedule 8.1 (new)
Exhibit IX (revised)

As the Interchange Agreement reflects the depreciation practices and decisions of the state regulatory agencies with jurisdiction over the NSP Companies, the proposed modifications to these exhibits are necessary to recognize a change to NSPM’s book recovery (i.e., depreciation and amortization) of electric transmission plant, recently ordered by the Minnesota Public

¹ *Electronic Tariff Filings*, Order No. 714, 73 FR 57515 (Oct. 3, 2008), FERC Stats & Regs ¶ 31,275 (2008).

Utilities Commission (“MPUC”). The NSP Companies propose the revised tariff sheets be effective January 1, 2013, the effective date of the MPUC decision regarding new depreciation rates and theoretical depreciation reserve surplus amortization, and 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 filing, which updated Exhibits VII, VIII and IX, was accepted for filing effective January 1, 2013, by letter order dated June 6, 2013 in Docket No. ER13-954-000.

B. Statement of Basis for Revised Tariff Sheets

Article XIV of the Interchange Agreement explains that certain features of the agreement are automatically adjusting, while others are not. While certain aspects of Exhibit V are automatically adjusting,⁴ pursuant to Section 14.1, “any change in the formula-type procedures set out in [Exhibit V] shall be filed as a rate change under the Federal Power Act.” Similarly, pursuant to Section 14.2, Exhibit IX (among other exhibits) “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.” Therefore, the changes the NSP Companies propose to make require this filing with the Commission.

² The other Xcel Energy Operating Companies are Public Service Company of Colorado (“PSCo”) and Southwestern Public Service Company (“SPS”). PSCo and SPS are not affected by the proposed Interchange Agreement changes.

³ See Article XIV of the Interchange Agreement.

⁴ Exhibit V (among other exhibits) establishes “formula-type procedures for developing the amounts of power and energy sales and the unit rates charged for such sales.” The parties have agreed that “the amounts developed under the formula-type rates set out in those exhibits will adjust automatically from time to time as provided in the exhibits and that no filings will be made at the [Commission]. . . ”

Section C of this transmittal letter discusses the proposed revisions to Exhibit V and Exhibit IX of the Interchange Agreement in more detail. Clean and redline versions of the Interchange Agreement revised tariff sheets effective January 1, 2013 are included with this filing as an attachment in the XML package.

C. Proposed Revised Tariff Sheets Effective January 1, 2013

1) Revisions to Exhibit V

The NSP Companies propose to modify the development of demand related costs in Exhibit V to include the amortization of the transmission theoretical depreciation reserve surplus as recently ordered by the MPUC in the NSPM 2013 test year Minnesota retail electric rate case (MPUC Docket No. E002/GR-12-961).

The Interchange Agreement provides for the sharing of the NSP production and transmission system revenue requirements by calculating the revenue requirements of each NSP Company's production and transmission system. Included in the revenue requirement calculations are, inter alia, the accumulated depreciation reserve, book depreciation expense, and any associated deferred income tax expense and accumulated deferred income tax ("ADIT") balance amounts, for the production and transmission assets. The book depreciation amounts are the composite of the individual rates approved by each state commission with jurisdiction over that NSP Company.

Depreciation and amortization is the mechanism to systematically and rationally charge the embedded cost of assets equally over the assets' useful life. All customers benefiting from the use of the asset are charged their share of the asset through depreciation and amortization in the revenue requirement process. Since the costs of the production and transmission assets across the NSP System are shared by the two NSP Companies, the Interchange Agreement includes the depreciation and amortization that directly relate to these assets. The MPUC, the North Dakota Public Service Commission ("NDPSC"), and the South Dakota Public Utilities Commission ("SDPUC") determine the depreciation and amortization for the NSPM assets; while the Public Service Commission of Wisconsin ("PSCW") and the Michigan Public Service Commission ("MPSC") determine the depreciation and amortization for the NSPW assets.

In the NSPM 2013 test year rate case, the MPUC recently ordered a change to the depreciation rates for transmission, distribution and general assets, and established an amortization for the amount of the actual depreciation reserve in excess of the theoretical depreciation reserve (surplus) based on new service lives, net salvage rates, and mortality curves. The MPUC order was issued in September 2013, and was final in late October 2013 when the MPUC denied a

pending request for reconsideration on an unrelated issue.⁵ The MPUC ordered NSPM to amortize the theoretical reserve surplus over an eight-year period, commencing January 1, 2013. See MPUC Order, pp. 25-29. Both of these changes, new depreciation rates and theoretical depreciation reserve surplus amortization, affect the cost of the transmission assets that are charged through the revenue requirements and are appropriately included in the Interchange Agreement.⁶ NSPW will reflect the change in Interchange Agreement depreciation costs in its retail rate proceedings for Wisconsin and Michigan customers. The proposed depreciation changes do not affect rates or services to any wholesale customers, because NSPM and NSPW serve no requirements wholesale customers at cost-based rates.⁷

As a result of communications with FERC accounting and regulatory staff in November 2013, NSPM understands that the Commission requires that the cost of property used in utility operations be allocated in a “systematic and rational manner” to periods during which the property is used in utility operations, (*i.e.* over the property’s average service life or average remaining life). While an eight-year amortization of the theoretical reserve surplus is acceptable for Minnesota retail ratemaking purposes, the Commission requires allocating the costs of utility plant in a “systematic and rational manner.” Accordingly, NSPM must reflect the eight-year amortization of the theoretical depreciation reserve surplus as a debit to FERC Account 182.3, Other Regulatory Assets and a credit to FERC Account 407.4, Regulatory Credits.⁸

FERC Accounts 182.3 and 407.4 are not currently included in the calculation of the capital revenue requirement determination in the Interchange Agreement. Thus, the NSP Companies request that the capital revenue requirement determination related to electric transmission assets for each NSP Company be modified as follows:

- 1) Include in rate base the average monthly balance of Accumulated Amortization of Theoretical Reserve Surplus. These amounts are recorded in FERC Account 182.3 – Other Regulatory Assets.
- 2) Include in the calculation of Fixed Charges on Investment the Theoretical Reserve Surplus Amortization Expense. These amounts are recorded in FERC Account 407.4

⁵ *In the Matter of Application by Northern States Power Company for Authority to Increase Rates in the State of Minnesota*, FINDINGS OF FACT AND CONCLUSIONS, AND ORDER, Docket No. E002/GR-12-961 (Sept. 3, 2013) (“MPUC Order”); *see also Order Denying Reconsideration* October 31, 2013.

⁶ In its 2013 test year Minnesota electric retail rate case, NSPM proposed to amortize the theoretical reserve surplus for the electric transmission, distribution, general and common general functions over the average remaining life. The MPUC did not adopt the NSPM recommendation. Please note that while the MPUC order affected electric transmission, distribution, general and common general plant, only the theoretical reserve surplus related to the transmission function is applicable for the Interchange Agreement billings.

⁷ As of January 1, 2013, NSPM has one municipal wholesale customer and NSPW has none. The NSPM wholesale requirements customer receives service pursuant to a rate schedule with rates indexed to a comparable retail rate as established by the MPUC. As such, the rates charged to that wholesale customer will be adjusted to reflect the final rates approved by the MPUC effective January 1, 2013, including the theoretical depreciation reserve impact.

⁸ *See Florida Power Corp.*, 136 FERC ¶ 61,033 (2011), *reh’g denied* 137 FERC ¶ 61,150 (2011).

– Regulatory Credits.

The NSP Companies have modified Exhibit V to reflect the addition of Accumulated Amortization of Theoretical Reserve Surplus as defined on Exhibit V, Schedule 4.2, and Theoretical Reserve Surplus Amortization Expense as defined on Exhibit V, Schedule 8.1. These modifications are necessary to accurately and equitably share transmission revenue requirements between the NSP Companies and reflect the impact to NSPW of the MPUC decision. Appendix A to this filing is a schedule showing the theoretical depreciation reserve surplus amortization, by functional class, for the NSPM assets.

2) Revisions to Exhibit IX

Exhibit IX sets forth a specification of the depreciation rates currently approved for the NSP Companies by their respective state regulators. The modifications reflect, *inter alia*, changes in service lives, net salvage rates and mortality curves approved by the MPUC. These modifications change the Annual Depreciation Rate Percent for NSPM, but not NSPW. The MPUC, the NDPSC and the SDPUC approved NSP-Minnesota'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; 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.

With the exception of MPUC Docket No. E002/GR-12-961 (and the SDPUC order in Docket No. EL-12-046), all of the above listed state Commission orders were submitted to the Commission on April 8, 2013, in Docket No. ER13-954-001, the 2013 annual update to the Interchange Agreement. The NSP Companies have attached the September 2013 MPUC order to this filing as Appendix B. As discussed below, the NSP Companies respectfully request that the Commission waive any requirement to file the depreciation order supporting data previously filed with the Commission and available in eLibrary.⁹

D. E-Tariff Compliance

⁹ The NSP Companies also request waiver of any requirement to submit the depreciation changes adopted in SDPUC Docket No. EL-12-046 at this time. 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. NSPM will provide documents supporting the SDPUC depreciation rates in the 2014 annual Interchange Agreement filing to be submitted during first quarter 2014. However, because of the complexity of providing supporting documentation, and a desire by the NSP Companies to submit this Interchange Agreement change prior to December 31, 2013, it was not possible to provide South Dakota depreciation documentation as part of this Section 205 filing.

As described in further detail in Dockets No. ER11-3234-000 and ER11-3235-000, the NSP Companies have chosen NSPM as the party that will submit the Interchange Agreement. NSPW's Certificate of Concurrence was filed in Docket No. ER11-3235-000. The proposed tariff changes are included with this filing as an attachment in the XML package.

E. Request for Acceptance for Filing of Agreement, Request for Waiver

The NSP Companies request the Commission accept the new and revised Interchange Agreement tariff sheets for filing effective January 1, 2013. 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.¹⁰

In *Central Hudson Gas & Electric Corporation*,¹¹ the Commission stated that it would generally grant waivers of the 60-day prior notice requirement for uncontested filings that do not change rates. In this instance, the proposed changes will reduce the Interchange Agreement charges to NSPW for 2013. 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 and will not affect the rates to any wholesale customers of NSPM or NSPW; and
- (2) Accepting the changes on the date requested allows the charges between the NSP Companies to reflect the updated cost allocation formulas for the entire 2013 fiscal year, consistent with the effective date of the depreciation reserve amortization ordered by the MPUC.

The NSP Companies also request that the Commission waive any requirement to file depreciation supporting data, specifically state regulatory filings and orders previously filed with the Commission 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. In that docket, 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

¹⁰ 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, 2012.

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

determined that it was “premature to address, [in that proceeding], potential waiver of the filing requirements in future section 205 filings.”¹² 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.

F. Contents of Filing; Notice; Service

Pursuant to the Commission’s filing requirements and in compliance with Order No. 714, this filing contains:

- 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 current effective Exhibits;
- d. The following appendices:
 - i. Appendix A, the Theoretical Reserve Surplus Amortization by Functional Class schedule effective January 1, 2013;
 - ii. Appendix B, the MPUC order issued September 2013 requiring NSPM to amortize the depreciation reserve over eight years; and
 - iii. Appendix C, the Service List for this filing;

A copy or notice of this filing will be sent by e-mail to (i) all State Commissions with jurisdiction over the NSP Companies, and (ii) all affected wholesale requirements customers, notifying them where they can download or access a copy of this filing.¹³ Appendix C provides the list of State Commissioner and customers to be served notice. The NSP Companies will also provide a courtesy copy or notice 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:

For NSP-Minnesota:

For NSP-Wisconsin:

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

¹³ As noted, as of January 1, 2013, NSPM has one requirements wholesale customer and NSPW has none.

Ms. Kimberly Bose
December 27, 2013
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I. Conclusion

The NSP Companies respectfully request the Commission accept the revised tariff sheets to the Interchange Agreement for filing effective January 1, 2013, and request the Commission grant any necessary waiver for the revisions to be effective on the date requested.

Please direct any questions regarding this filing to 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

CERTIFICATE OF SERVICE

I, Tracee Holte, hereby certify that I have this day served a notice of the enclosed document filing via electronic mail on each party designated on the attached Service List.

Dated at Minneapolis, Minnesota this 27th day of December, 2013.

/s/ Tracee J. Holte

Tracee J. Holte

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