E-002/D-90-184. In that Order, the Commission approved an annual accrual of $29,498,463 ORDER ACCEPTING FILING, REQUIRING ANNUAL LETTER, AND EXTENDING DATE FOR NEXT TRIENNIAL FILING for 1993 and an estimated $32.5 million for 1994 based on the following parameters:

c BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
Marshall Johnson	Commissioner
Cynthia A. Kitlinski	Commissioner
Dee Knaak	Commissioner

In the Matter of the Petition of Northern States Power for Depreciation Certification for Expected Decommissioning Costs for the Monticello and Prairie Island Nuclear Steam Generating Facilities and Depreciation Proposals for the Monticello and Prairie Island Nuclear Plants

ISSUE DATE: January 25, 1995

DOCKET NOS. E-002/D-93-504
E-002/D-94-635

ORDER ACCEPTING FILING, REQUIRING ANNUAL LETTER, AND EXTENDING DATE FOR NEXT TRIENNIAL FILING

PROCEDURAL HISTORY

On June 1, 1993, Northern States Power Company (NSP or the Company) filed its Triennial Cost Estimate Review and 1993 Review of Decommissioning.

On August 2, 1993, NSP requested that the Commission delay consideration of its filing until the results of the pending legislative session were known.

On August 9 and 10, 1993, respectfully, the Minnesota Department of Public Service (the Department) and Minnesota Energy Consumers (MEC) filed comments on the Company's June 1, 1994 filing.

On August 19, 1993, NSP and the Department filed responses to August 10, 1993 MEC's comments.

On October 11, 1992, the Commission issued an Order granting NSP's request to delay the proceedings until after the legislative session.

On July 8, 1994, following the legislative session, NSP proposed modifications to its original filing.

On July 20, 1994, the Commission issued its Request for Comments on NSP's Updated Nuclear Plant Decommissioning Proposals.

On August 18, 1994, the Department filed comments on the Company's July 8 filing.

On August 19, 1994, MEC and the North American Water Office (NAWO) each filed comments on the Company's July 8, 1994 filing. In its comments, MEC only addressed the return on external funds issue and the 5 percent burial rate issue, issues that it addressed earlier in its August 10, 1993 comments. MEC did not address the modifications in NSP's update.

On August 29, 1994, NSP and the Department each replied to MEC's and NAWO's comments.

On December 15, 1994, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

NSP filed its triennial review, with 1993 cost study and annual financial plan, as directed in Docket E-002/D-90-184 on June 1, 1993. This matter is now coming before the Commission following the delay due to the legislative matter and subsequent updates to the filing and comments on the updates. The Commission will address the matter in five parts:

A. PRELIMINARY MATTER: EXCLUSION OF MEC'S 8/19/94 COMMENTS

MEC filed its second set of comments in this matter on August 19, 1994 in response to the Commission's July 20, 1994 request for comments on NSP's modified (July 8, 1994) proposals. In its August 19, 1994 comments, however, MEC did not address NSP's modified proposals as instructed in the Commission's request for comments. Instead, MEC addressed two issues that it had already argued in its earlier (August 10, 1993) comments.

The Department has requested that the Commission determine that MEC's second set of comments will not be considered. The Commission will do so. MEC's comments are clearly non-responsive to the Commission's request for comment; they provide no assistance in analyzing NSP's modified proposal. The Commission's determination does not eliminate from consideration the substance of MEC's concerns because, as noted, the issues it addressed in its second set of comments are the same issues it argued in the first set, which remain part of the record.

The Commission takes this action to underline the importance of parties' responding closely to the Commission's directions in its requests for comments. Generally speaking, the practice of limiting comment to subjects requested in the notice helps to maintain a proper focus on the issues at hand and saves parties from having to respond to issues and arguments that the Commission has deemed beyond the scope of its inquiry.

B. THE APPROPRIATE COST ESTIMATE FOR DECOMMISSIONING NSP's NUCLEAR STATIONS

NSP's final estimate of the costs involved in decommissioning the Company's nuclear facilities (one unit at Monticello and two units at Prairie Island) was $751 million.[1] The Company based its estimate on a cost study performed by TLG Engineering, Inc. which performed a site-specific decommissioning cost-study for each nuclear unit.

The Department supported the Company's figures. In its August 9, 1993 comments, the Department recommended the Company's decommissioning cost estimate ($720 million) as reasonable. The Department noted that except for certain modifications to assumptions which the Department found reasonable, the Company used the same methodology in calculating its decommissioning cost estimate as was accepted by the Commission in the 1986 and 1990 cost studies. After the Company revised its estimate to $751 million, the Department stated that NSP's revision was correct, based on its review of supporting documentation regarding initially omitted Monticello labor costs.

[1] In its original June 1, 1993 filing, NSP estimated approximately $720 million. The Company corrected this figure to $751 million in its July 8, 1994 updated filing based on its discovering that the original filing had not included approximately $31 million in labor costs.

The Commission will accept NSP's revised decommissioning cost figure ($751 million) as reasonable. In so doing, the Commission notes some of the interesting elements upon which the Company's estimate is based:

1. Choice of Decommissioning Alternative

The studies assume use of the DECON decommissioning alternative. DECON consists of the removal of fuel, source material, and other radioactive materials above certain limits. When the site is released, the utility has the option of clearing the site. Other alternatives include SAFSTOR or ENTOMB. NSP viewed DECON as the more attractive alternative because with either SAFSTOR or ENTOMB methods, decontamination and decommissioning of the site will ultimately need to be carried out. In addition, the Company favored DECON because it immediately eliminates long-term hazards and is likely to be accomplished with the help of individuals most familiar with the facilities. DECON is expected to result in the lowest overall cost.

2. Reuse of Site

Previous cost studies anticipated the complete removal of all components and structures within the property lines, as presently configured. The current study assumes that the plant site will be repowered, meaning a new generation facility would be built after the Nuclear Regulatory Commission (NRC) license is removed. Warehouses, administration, and guard buildings would likely not be demolished. The turbine buildings would be reused following cleaning.

3. Escalation Factor

Although the $751 million cost calculated using 1993 dollars exceeds the $630 million cost calculated in the 1990 study using 1990 dollars, the 1993 cost actually does not represent an increase. If the 1990 costs are escalated at the 6% escalation rate assumed in the 1990 study, the 1990 study would translate into a cost of $750 million in 1993 dollars.

C. THE APPROPRIATE ACCRUAL FOR THE YEAR 1994, THE FINANCIAL PARAMETERS UPON WHICH THAT AMOUNT IS BASED AND THE FUNDING MECHANISMS FOR ACHIEVING THAT ACCRUAL AMOUNT

On February 25, 1991, the Commission issued its most recent Order regarding NSP's decommissioning costs. Docket No. E-002/D-90-184. In that Order, the Commission approved an annual accrual of $29,498,463 for 1993 and an estimated $32.5 million for 1994 based on the following parameters:

1990 Cost Estimate. $630,142,800

Funding . . . . Internal/External

Remaining Lives
- Monticello . . . . 17.7 years
- Prairie 1 . . . . 20.5 years
- Prairie 2 . . . . 21.8 years

Return on Internal Fund 8.58%
Return on External Qualified. 5.50%
Return on External Nonqualified . . . 7.50%

Composite Tax Rate. 39.91%

Cost Escalation Rate. 6.0%

NSP's most recent proposal in this matter, filed July 8, 1994 following the legislative action regarding the Prairie Island facilities, is as follows:

1993 Cost Estimate	$750.8 million
Funding	Internal/External
Remaining Lives	
Monticello	16.7 years
Prairie 1	14.8 years
Prairie 2	14.8 years
Return on Internal Fund	7.96%
Return on External Qualified Fund	6.00%
Return on External Nonqualified	6.00%
Composite Tax Rate	41.01%
Cost Escalation Rate	4.50%

The Commission will address these components as follows:

1. Cost Escalation Rate

The goal of the decommissioning fund is to have the amount on hand which is expected to be needed when the facilities are, in fact decommissioned. At this point, the dates projected for that event is between the years 2010-2020. It is necessary, therefore, to select an appropriate escalator rate to convert the $751 million, the cost calculated by NSP's engineering firm in 1993 dollars to 2010-2020 dollars which will be used to pay the actual decommissioning costs.

In reaching its proposed 4.5 percent escalation rate, NSP relied on information from Data Resources, Inc. (DRI) and the NRC in approximating what the levelized escalation rate will be from now until decommissioning occurs. DRI calculated rates as low as 3.3 percent for the Consumer Product Index (CPI), while the NRC formula results in a rate in excess of 4.7 percent for nuclear decommissioning activities. NSP calculated that 4.5 percent reasonably approximates the escalation rate based on that information and on NSP's specific plants.

NSP used a composite calculation including specific factors for labor, shipping, burial, and equipment. NSP calculated 4.26 percent under Trendlong and 4.6 percent under Cyclelong assumptions. NSP also estimated a 5 percent burial rate escalation factor.

In their initial comments the Department approved NSP's proposal but MEC objected that the 4.5 percent escalation rate is overstated. MEC recommended that the escalation rate be set at 3.93 percent, thereby reducing the amount of decommissioning costs that the Company would be authorized to recover from customers at this time. MEC made the following arguments:

- The 5 percent burial inflation rate is unsupported. Five (5) percent was used in 1990 when an overall escalation rate of 6 percent was arrived at. Five percent cannot be valid in 1993 when NSP only seeks an overall rate of 4.5 percent.

- The GDP Implicit Price Deflator of 3.17 percent should replace the 5 percent estimate. The GDP deflator should be used because NSP has not shown why burial costs should escalate at a faster rate than the general U.S. inflation rate. Also, the GDP was 5.2 percent in 1990, very similar to the 5 percent burial rate used by NSP in 1990.

- NSP also arbitrarily overstated its escalation rate by using 4.5 percent instead of the 4.26 percent it calculated. Using 4.26 percent instead of 4.5 percent would reduce the annual expense accrual amount by about $1.6 million. Incorporating the 3.17 percent burial rate into the 4.26 percent rate would further reduce the overall rate to 3.93 percent.

The Commission finds that the Company's proposed 4.5 percent escalation rate is reasonable and will approve it. Of course, the rate will continue to be reviewed in future triennial filings.

MEC's objection to NSP's use of a 5 percent burial rate

MEC's argument regarding the burial rate is not persuasive. MEC would have NSP rely heavily on the GDP Implicit Price Deflator. However, the GDP price deflator reflects one point in time while decommissioning won't be paid for 20 years in the future. In addition, the GDP reflects a basket of goods while decommissioning is a distinct project.

To illustrate the distinctness of decommissioning, the Commission notes that decommissioning costs have inflated at an annualized rate of 10.39 percent over the years 1986-1993 based on a South Carolina nuclear waste facility, which is scheduled to be closed in 1994. In addition, NSP cited four scenarios with burial rates ranging from 19.9 percent to 3.6 percent. The average of the two lowest scenarios is 6.3 percent, still greater than the 5 percent assumed by NSP for decommissioning purposes.

MEC's objection to the overall 4.5 percent escalation rate

The Commission finds that MEC's concerns about an excessive 4.5 percent overall escalation rate are unsubstantiated. NSP used the same method in the 1990 study. MEC has not demonstrated a flaw in that method. The method appropriately considers three factors: the NRC inflation rate, the DRI general inflation rate, and the composite rate calculated by the Company.

2. Internal and External Funding

a. The Company's Proposal

Prior to 1990, NSP used an internal sinking fund method. The Company collected its decommissioning funds through rates, accumulated them internally, and was free to use them as an internal source of funds for operating the business.

On July 27, 1990, NRC regulations became effective. Those regulations require greater assurance that decommissioning funds be available at the time of decommissioning. To meet the regulations, NSP established an external fund for a portion of the decommissioning funds collected through rates according to the NRC formula. The external funding was first authorized by the Commission in the 1990 decommissioning docket.

In the current filing, NSP noted that the NRC formula calculates that approximately $600 million be funded leaving the remainder of the $751 million decommissioning costs (approximately

$151 million) to be funded on an internal basis.

With respect to the funds to be placed externally, NSP proposed to create two types of external funds for tax reasons. The IRS will allow a current tax deduction for decommissioning resulting in interest accumulating on a before-tax balance. However, the IRS limits the amount that is qualified for a current deduction and uses a formula based on the remaining life of the units and the original lives when first certified. Therefore, NSP proposed to place the maximum possible amount with the IRS qualified external fund with the remainder placed with the external non-qualified fund.

In its July 8, 1994 updated filing, then, NSP proposed to distribute the $25.7 million annual accrual amount as follows: approximately $979 thousand would remain internally funded, approximately $11.4 million would be placed in the external tax qualified fund, and approximately $13.3 million would be placed in the external tax non-qualified fund. NSP stated that its goal is to maximize earnings and minimize tax.

NSP proposed the following superintendence of its external funding: Mellon Bank, Pittsburgh, will continue to serve as the Trustee for the external decommissioning funds; Delaware Investment Advisers will continue to serve as the investment manager for the qualified funds; and Bankers Trust was chosen to manage the non-qualified funds.

b. Parties' Comments

The Department recommended approval of NSP's internal/external funding proposal. Neither MEC nor NAWO commented on this subject.

c. Commission Action

The Commission generally approves NSP's internal/external funding proposal.[2] The Commission finds that the Company's proposal to fund externally in the amount of $600 million for the three facilities appears intended to meet the NRC requirements.[3]

---

[2] However, the Commission would like to understand more fully and accepts NSP's offer to clarify the relationship between the Company and Mellon Bank vis a vis the external funds, e.g. regarding authority to retain and supervise the managers of the two external funds listed above. NSP has agreed to address this topic in its next annual letter filing.

[3] The NRC rule prescribes the equation to be used in calculating the amount which must be placed in the external fund. The equation involves the following factors: the type of reactor (boiling water or pressurized water) and the thermal factor.

Moreover, the Commission notes that this amount ($600 million) represents 80 percent of total decommissioning costs, a substantial increase from the 55 percent amount proposed by the Company in 1990 when the Commission conducted its most recent triennial review. The Company's movement to full external funding appears aimed at maximizing tax savings, an appropriate goal for a public utility, as well as ensuring that funds be available when needed. Finally, the Commission will require clarification of the trustee's role (see footnote 2) and continue to require the Company to file an annual letter on October 1 of each year between triennial filings. This letter will inform the Commission regarding accruals and status of funds and will allow the Commission to monitor the fund between annual filings.

3. Return on External Funding

a. The Company's Proposal

NSP estimated different rates of return for each of its two external funds (the qualified external fund and the non-qualified external fund) and proposed an overall return for both funds of 6 percent.

For the qualified fund, NSP posited an expected return range from 5.9 percent to 6.5 percent. The Company based its proposal on results of a computer analysis. The Company employed asset allocation software to attempt to optimize the asset allocations. Using this software, the Company analyzed equities, taxable bonds, non-taxable bonds, and treasury bills. In addition, the Company analyzed types of investments based on the expected returns and degree of risk. Based on this analysis and assuming a 20 year horizon, NSP deemed the optimum range for the qualified fund was 40 percent to 60 percent equities, with the balance in municipals.

For the non-qualified fund, NSP stated an expected return range between 6.2 percent and 6.4 percent. The Company based this range on the same software and analysis used for the qualified fund. In so doing, NSP deemed the optimum range for the non-qualified fund was 50 percent to 60 percent equities with the balance in municipals.

On a combined basis, NSP proposed a portfolio made up of 42 percent to 60 percent equities and 58 percent to 40 percent debt. The debt would be entirely made up of municipal bonds. NSP did advise that the investment managers be given latitude to incorporate other fixed income investments to take advantage of various market conditions. The combined expected returns were calculated as between 5.9 percent and 6.5 percent. The Company proposed using 6 percent for the expected return for both the qualified and non-qualified funds.

b. The Parties' Comments

The Department stated that the Company's 6 percent return estimate for both the qualified and non-qualified funds was within the reasonable range of earnings projections for these funds. Although somewhat conservative, the projection reasonably accounts for the transition time necessary to achieve the optimal portfolio, corporate tax adjustments, and a shift to more conservative strategy beginning five years before decommissioning.

MEC argued that NSP's external earnings assumptions are biased toward overcollection because its expected return on these funds is arbitrarily understated. MEC noted that the average of the ranges established by NSP for the two funds was 6.2 percent for the tax-qualified fund and 6.3 percent for the non-tax qualified fund. Adoption of such a return would reduce the decommissioning expense accrual by $776,460 annually.

MEC argued that because NSP understated its earnings assumptions and are inconsistent with its return on common equity (ROE), the Commission should use NSP's ROE as the rate for earnings on the external funds.

c. Commission Action

The Commission finds that NSP's projected overall return of 6 percent on its external funds is reasonable and will approve it. The Commission has reviewed the Company's process in calculating ranges of returns for its two external funds and finds those ranges well-founded. In addition, the Commission finds that selection of the overall 6 percent figure from those ranges is prudent.

The Commission is not persuaded by MEC's arguments for a higher figure. MEC inappropriately viewed the two external funds in isolation and applied the average expected return for each individual fund. However, the qualified and non-qualified funds should be treated as components of an overall fund. In addition, MEC's proposal to use NSP's ROE did not reflect the composition of the fund, incorporating both equity and bonds to achieve a reasonable level of risk. MEC's proposal only reflects the stock portion of the fund mix. Further, the ranges referred to by MEC assume that the optimal asset mix will be in place for 20 years. This is highly unlikely. Monticello's operating license terminates in 2010.
Prairie Island's terminate in 2013 and 2014. It will take several years to achieve the optimal asset mix. Finally, shifting to a more conservative strategy five years before decommissioning is prudent to preserve assets for decommissioning. This reduces the range of expected earnings to 5.65 percent from 6.25 percent. The midpoint of this range is 5.95 percent, or slightly below NSP's recommended 6 percent.

4. Return on Internal Funds

The internal fund is presently paying ratepayers a return on the decommissioning funds of 7.96 percent after tax. This return is based on the overall rate of return allowed in NSP's most recent rate case, Docket No. E-002/GR-92-1185. NSP proposed to continue this after-tax rate of return. No party objected to this figure.

The Commission finds that it is appropriate to incorporate the last authorized rate of return in the nuclear calculations. See the Commission's Order in E-002/D-86-604 which indicated that the last rate of return and capital structure should be used. This provides equality between the revenues earned on the facilities, and the amount credited against the decommissioning expense of the facilities.

5. Remaining Lives of the Plants

a. Background

The remaining life of the nuclear facilities in question is a necessary input into the calculations in determining the annual decommissioning expense accrual. Changes in lives obviously affect the period of time over which the sinking fund annuity is calculated. This, in turn, affects the amount that must be recovered from customers in rates in any given year.

b. The Company's Proposal

In its original June 1, 1993 decommissioning filing, NSP proposed remaining lives on the three units: 16.8 years for Monticello, 19.6 years for Prairie 1, and 20.8 years for Prairie 2.

After the legislature adopted the Prairie Island legislation, NSP revised its estimates of the remaining lives of its nuclear facilities. In its July 8, 1994 update, NSP requested that the Commission certify remaining lives of 16.8 years (16.5 for depreciation purposes after interim adjustment) for Monticello and 14.8 years (14.6 for depreciation purposes after interim adjustment) for both Prairie Island units. The proposed modifications require an increase in the jurisdictional depreciation accrual by $7.1 million annually.

c. Parties' Comments

The Department noted that NSP's adjustments projected remaining lives ending in 2008. The Department recommended that the lives as proposed by NSP be accepted. In addition, the Department also basically recommended approving the revised decommissioning accrual commencing 1/1/94 at $25,731,816 as contained in the Company's July, 1994 update.

NAWO cited a number of technical and political contingencies that could affect the remaining life of NSP's nuclear plants and urged the Commission to err on the side of a shorter life and determine that the remaining life of all three reactors ends 6 years earlier than recommended by NSP, i.e. by the year 2002. NAWO stated that the question of who should pay for its proposed accelerated depreciation of these reactors is entirely another matter.

d. Commission Analysis

The Commission acknowledges that the availability of storage for spent fuel, necessary under the Prairie Island legislation to allow full use of NSP's three nuclear facilities until the dates of operating license termination, is uncertain. For this reason, the Commission has required NSP assume a scenario where Prairie Island closes in 2002 for Resource Plan purposes. The Commission has felt it prudent to assure that NSP is actively preparing contingency plans to meet the energy needs of its customers if indeed the Company's nuclear plants are required to close in 2002. This is an appropriate safeguard for NSP's customers to assure the Company's continued capacity to supply its customers' energy need through non-nuclear sources if such become unavailable at that time.

However, setting the remaining life figures for these three facilities in a decommissioning preceding has different goals. In decommissioning proceedings, the Commission attempts to coordinate several goals: 1) to ensure that funds are available at the time decommissioning takes place, 2) to avoid intergenerational subsidies occur when ratepayers in one generation subsidize ratepayers in another generation, and 3) to avoid the rate shock that would result from placing an excessive burden on a specific group of ratepayers.

With this understanding, NAWO's statement (that the question of who should pay for its proposed accelerated depreciation of these reactors is entirely another matter) is off the mark. In fact, the specific purpose of this proceeding is to determine which ratepayers pay for decommissioning, when and how much. The remaining life question is not abstract, but is made in the context of seeking a just result on the complex question of who will pay how much and when to decommission NSP's nuclear plants. Said another way, setting the remaining life of these plants *for purposes of this docket* does not affect the overall amount recovered, only the timing of when it is recovered and, of course, how much need be collected each year to do so.

e. Commission Action

In that context, then, the Commission finds that the remaining lives, as revised by NSP following adoption of the Prairie Island legislation, fairly balance 1) the interest of NSP and ratepayers due to the magnitude of the investment and costs, 2) the likelihood that it will not result in excessive ratepayer subsidization, 3) the risk of shut-down due to inadequate fuel storage, and 4) the potential that Prairie Island could reopen even if it were to close early.

6. Timing of Rate Adjustment Due to Changes in Decommissioning Costs

a. MEC's Proposal

MEC raised concerns regarding the process of whereby decommissioning accruals are established every three years and outside of rate cases and have no impact upon rates until the next rate case, in which rates are set using the most recently approved decommissioning cost study. MEC noted that if, subsequent to the rate case, the Commission finds in a triennial decommissioning review that the decommissioning expense accrual should decrease, the Company will over-recover for decommissioning until rates are adjusted in the next rate case to compensate for this development. MEC objected to this over-recovery, which it characterized as a windfall.

To safeguard against this, MEC proposed that the Commission review decommissioning in every rate case, credit ratepayers for decommissioning funds actually received in rates, and institute a true-up mechanism to prevent windfalls.

b. NSP's Response

NSP objected to MEC's proposals, arguing that decommissioning costs should not be treated specially but should be considered together with all costs. If decommissioning costs together with all costs increase, a rate case should be filed. If decommissioning costs and other costs decrease, a rate decrease may be in order.

c. Commission Action

The Commission does not believe that decommissioning costs should receive the special treatment proposed by MEC. It is understood that between rate cases, some costs upon which rates have been calculated will increase and some will decrease. Such developments are normal and may not properly be said to result in "over" or "under" recovery.

7. Clarification of Electric Rate Case Directives

In its updated July 8, 1994 filing, NSP proposed a decrease in decommissioning expense but an increase in depreciation expense. While decommissioning and depreciation are really the same thing, decommissioning requires funding.

The Company's proposal is at variance with the Commission's Order in the Company's most recent rate case, Docket No. E-002/GR-92-1185.[4] Strict adherence to the funding directives of that Order would appear to lead to funding the decommissioning funds in excess of the accrual,

---

[4] In that Order, despite a decommissioning study by NSP showing a proposed reduction in expense accrual of nearly $10 million, the Commission 1) selected a larger expense (based on a past decommissioning study) because of the uncertainty surrounding the dry cask matter and 2) required NSP to deposit the amounts collected in the proper funds, maintaining the full amounts for consideration in future decommissioning proceedings.

while NSP would be recovering cash below the depreciation level.

However, circumstances have changed somewhat since that Order. With the Prairie Island legislation in hand, some of the uncertainty has passed and the directives cited above from the Commission's Order are less necessary. Accordingly, the Commission will clarify the language in the electric rate case Order to permit the depositing of the funds calculated for the accrual as determined in this docket, which also accommodates the Company's proposed change in depreciation expense.

D. RISK OF PREMATURE DECOMMISSIONING

In its first decommissioning Order in Docket No. E-002/D-79-956, the Commission noted that funding mechanisms established to accrue funding adequate to defray the cost of decommissioning that occurred at the end of the plants' expected lives would be insufficient to meet a premature decommissioning. The Commission ordered NSP to investigate methods of reducing this risk and to report annually. With the current filing, NSP included its annual report on this subject.

NSP reported that it has purchased several kinds of accidental property insurance, public liability insurance, and made provisions for the purchase of replacement power. With respect to premature decommissioning, the Company noted that it has accumulated in excess of $250 million in nuclear decommissioning funds, has an annual revenue stream of nearly $2.2 billion and investments exceeding $6.6 billion. The Company concluded that premature decommissioning should not be devastating to its operations.

The Department commented that it believes NSP is covered with sufficient insurance for liability, property, and replacement power to provide reasonable assurance that NSP could meet its obligations in the event of premature decommissioning.

The Commission finds that NSP is accruing a fund consistent with NRC standards and views the Company's efforts in this regard as satisfactory.

E. FUEL IN REACTORS

At the time the operating licenses terminate for NSP's three nuclear units, there will be approximately $57 million unused fuel remaining in the reactors. NSP will want to realize its investment in this unused fuel. To recover its investment in the unused fuel, the Company maintains an internal fund which is similar to but separate from the nuclear decommissioning fund. In its July 8, 1994 updated filing, NSP proposed to accrue $1,764,228 annually for this purpose.

The Department reviewed the Company's calculation and had no objection. The Commission will accept NSP's proposed parameters leading to the $1,764,228 annual expense accrual.

F. FUTURE FILING REQUIREMENTS

Normally, NSP's next triennial filing would be due on June 1, 1996, three years following its initial filing in this matter. However, in light of the lengthy delay and revised filing due to the Prairie Island legislation, NSP requested that its next triennial filing not be due until October 10, 1996.

The Commission finds that the Company's request is reasonable and will approve it. The later filing (October 1, 1996) will not alter the basic structure of the Commission's decommissioning review. The cost estimate, fund methods, external return, escalation, lives, and tax rate be reviewed every three years.

The capital structure and return for internal funding should be updated during a rate proceeding to be consistent with the rate of return in the rate proceeding. In addition, NSP will continue to provide an annual informational letter, in years that the three year study is not due, to inform of fund status without required Commission action.

G. EFFECTIVE DATE

The Company originally proposed a January 1, 1994 effective date. No party proposed an alternative. The Commission finds the Company's proposal reasonable and will establish the effective date of the determination in this docket as January 1, 1994 as originally proposed by NSP.

H. MISCELLANEOUS ASPECTS OF FUTURE FILINGS

NSP's offers to provide information on three topics are accepted and memorialized as follows:

First, in its next triennial filing NSP will include a discussion of the amount by which its then proposed decommissioning cost level differs from the amount approved in this Order. The Company will identify the specific costs that changed between this Order and its next triennial filing and explain why those costs changed.

Second, in its annual letter filings NSP will discuss the desirability of, potential for, and progress made in securing the external deposit of the decommissioning funds collected in prior years, i.e. in years before it began to invest externally a certain portion of the funds it was currently collecting in order to meet Treasury guidelines.

Third, in the first of its annual letter filings, NSP will address in detail the relationship between itself, the fund managers, the trustee, and (with respect to these funds) the Commission.

ORDER

1. The Commission accepts the study done by TLG Engineering, Inc. as providing a reasonable estimate of costs for purposes of this docket.

2. The Commission accepts Company's proposed 4.5 percent escalation factor as a reasonable estimate for purposes of this docket.

3. The Commission accepts NSP's external funding arrangement as proposed.

4. The Commission accepts the 6 percent return estimate for both the tax-qualified and non-tax qualified external funds as reasonable for purposed of this docket.

5. The Commission accepts the incorporation of the after-tax rate of return on the internal fund allowed in the most recent NSP electric rate case, 7.96 percent.

6. The Commission accepts the lives proposed by NSP, Monticello 16.8 years, Prairie Island 14.8 years, subject to .2 percent interim adjustment for depreciation purposes.

7. The Commission hereby clarifies the language in its September 29, 1993 FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER in Docket No. E-002/GR-92-1185 to permit the depositing of the funds as calculated for the accrual as determined in this docket, which also accommodates the change in depreciation expense.

8. The Commission accepts NSP's efforts to deal with the risk of premature decommissioning as sufficient for purposes of this proceeding.

9. The Commission accepts NSP's proposed parameters leading to the $1,764,228 annual expense accrual for unused nuclear fuel remaining in the reactors upon decommissioning.

10. NSP's next triennial filing shall be due October 10, 1996.

11. In years where the triennial filing is not due, NSP shall file an annual letter detailing annual accrual, fund status, and discussion of activities addressing the risk of premature decommissioning. No Commission action will be necessary on these filings.

12. The effective date of the determination in this docket shall be January 1, 1994, as originally proposed by NSP.

13. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)