

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of the Petition for Approval of
Deferred Accounting Treatment of Costs
Related to the Mercury Emissions Reduction
Act of 2006

ISSUE DATE: January 31, 2007

DOCKET NO. E-002/M-06-1315

ORDER APPROVING DEFERRED
ACCOUNTING OF CERTAIN COSTS
ATTRIBUTED TO MERCURY EMISSION
REDUCTION

PROCEDURAL HISTORY

On September 15, 2006, Northern States Power Company d/b/a Xcel Energy (Xcel) sought approval to defer costs, beginning with the date of the request and continuing until a rate rider is implemented, incurred to comply with the Mercury Emissions Reduction Act of 2006 (the Act).¹ The Company is seeking deferred accounting for the operation and maintenance costs, and also deferral for the costs of capital associated with the construction work in progress (CWIP) balance.

On November 15, 2006, the Minnesota Department of Commerce (the Department) recommended that approval of the request for deferred accounting be limited to \$5.4 million to reflect the exclusion of travel costs and carrying costs from the list of eligible costs for which deferral is allowed. The Department also recommended that any revenues accruing to Xcel from the sale of emission allocations for SO₂, NO_x and mercury be credited to ratepayers through the mercury reduction rate rider. The Department clarified that its recommendation for approval of deferred accounting did not constitute a recommendation for ultimate recovery in rates.

On December 1, 2006, Xcel accepted the Department's recommendations to exclude travel costs from the costs to be deferred, clarified its treatment of emission allocations, and concluded that the Commission should grant the requested deferred accounting, with the exclusion of the travel-related expenses.

¹ Minn. Stat. §§ 216B.68 to 216B.688.

On December 29, 2006, the Department modified its earlier recommendation. The Department recommended that the Commission 1) approve Xcel's request for deferred accounting of \$6,294,969 (a figure which excludes travel costs) and 2) allow the carrying costs on CWIP in lieu of funds used during construction (AFUDC) costs, provided that the Company maintain sufficient accounting information to support audit of the AFUDC costs and carrying costs in order to avoid double recovery. The Department continued to recommend that any revenues from the sale of emission allowances made possible by the Act be credited to ratepayers through the mercury reduction tracker.

The Commission met on January 11, 2007 to consider this matter.

FINDINGS AND CONCLUSIONS

I. Deferred Accounting With Cap

Xcel requested approval to defer costs related to mercury reduction activity (Minnesota jurisdiction), capped at \$6.3 million.

The Department recommended that the Commission approve deferral of an amount that excluded travel costs. In making its recommendation, the Department reviewed the applicable statutes, reviewed Xcel's request, analyzed specific costs proposed for deferral, and discussed the criteria for granting deferred accounting.

In reply comments, the Company accepted the Department's recommendation.

The Commission finds that the Department's recommendation to approve the deferral minus the travel expenses is well-founded and will accept it. Travel costs are properly excluded and the remaining costs are appropriate for deferral, given the safeguards, conditions and clarifications that follow.

II. Safeguard Against Double Recovery

In its initial comments, the Department raised concern about Xcel's proposal to collect a carrying charge on CWIP². The Department suggested that the statute might not allow for such carrying charge, that the rate charged may be too large, and that the rate charged differs from the Federal Energy Regulatory Commission (FERC) AFUDC rate.

In response, Xcel argued that Minn. Stat. § 216B.683, Subd. 1(b)(3) supported recovery of a carrying charge on CWIP. The Company also noted that the return on the capital expenditures recorded as CWIP is a cost referenced as allowable under the statute. The Company also

² CWIP (construction work in progress) is the term applied to capital plant being constructed that is not yet used and useful in the provision of utility service.

explained that the AFUDC rate is not the rate used to calculate the Company's rate of return on CWIP, but that the return on CWIP as proposed is based on the overall rate of return allowed in Xcel's most recent electric rate case.

In reply comments, the Department concluded that it is not unreasonable to allow Xcel's requested carrying charge on the CWIP balance in lieu of (not in addition to) AFUDC costs, as long as there is assurance that there will be no double recovery. The Department recognized that this treatment would be similar to that allowed in similar dockets and is consistent with provisions of the mercury reduction legislation which provide for performance-based incentives.

The Commission notes that a Minnesota regulated utility plant is generally not allowed a return or provision for recovery in rates until the plant is actually used and useful in providing utility service. However, in rate cases, the Commission has permitted CWIP to be included in rate base where it earns the allowed rate of return, but the rate impact is largely offset by capitalizing AFUDC (Allowance for Funds Used During Construction).

In this case, the recently enacted statute Minn. Stat. § 216B.683 appears to give the Commission discretion to allow recovery of a carrying charge on CWIP. At Subd. 1 (b)(3), the statute states:

(b)...rate riders may include recovery of costs associated with...(3) construction work in progress...

In addition, the Commission finds that Xcel's proposal is consistent with treatment afforded the Metro Area Emissions Reduction Project (MERP)³ and achieves the return Xcel would earn on the CWIP investment if the amount were included as an in-service rate base item in a rate proceeding. At the same time, the Commission finds that the Department's recommendation to allow Xcel's request with protections against double recovery is prudent and would yield reasonable results. The Commission will therefore require Xcel to maintain sufficient accounting records to permit verification that no double recovery of AFUDC and carrying costs occurred.

III. Related Emission Allowances

The Department recommended that Xcel be required to credit ratepayers, through the mercury reduction rider, any revenues accruing from the sale of emission allowances as a result of the Act. This would prevent ratepayers paying Xcel for the costs of mercury abatement, while Xcel continued to hold funds from the sale of allowances made available by the mercury reduction efforts.

Xcel stated that it already has mechanisms in place to address the emission allocations, and that it is considering making a filing to address emission allocations in a more comprehensive manner. The Company urged that a specific finding is not needed at this time since no revenues are expected in the near term for sale of emission allocations related to the mercury reduction project.

³ See Docket Nos. E-002/AI-04-1110 and E-002/M-02-633.

The Commission finds it appropriate to make clear that revenues resulting from the sale of emission credits are subject to inclusion as an offset to costs recovered in the mercury reduction rider. Unless Xcel has another approved method in place, costs charged to ratepayers through the mercury reduction rider should be reduced by benefits received from the allowances.

IV. Future Review and Approval Required Before Recovery

The Commission notes that Xcel has properly acknowledged in its Petition that approval of deferred accounting simply preserves the Company's right to seek recovery of the deferred costs and that the Commission will still review and approve the specific costs before they may be recovered through the rate rider.

ORDER

1. Xcel's request for deferred accounting is granted, as recommended by the Department, with a cap of \$6,294,969 representing the exclusion of travel costs.
2. Xcel shall maintain sufficient accounting records to permit verification that no double recovery of AFUDC and carrying costs has occurred.
3. Xcel shall include revenues resulting from the sale of emission credits as an offset to costs recovered in the mercury reduction rider.
4. The Commission clarifies that costs deferred are subject to further Commission review and approval prior to being included in the rate rider for recovery from customers.
5. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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