

153 FERC ¶ 61,179  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Norman C. Bay, Chairman;  
Cheryl A. LaFleur, Tony Clark,  
and Colette D. Honorable.

Northern States Power Company, a Minnesota  
corporation

Docket Nos. ER15-698-000  
ER15-698-001

Northern States Power Company, a Wisconsin  
corporation

ORDER ACCEPTING TARIFF REVISIONS

(Issued November 19, 2015)

1. On December 22, 2014 (December 22 Filing), as amended on September 23, 2015 (September 23 Amendment),<sup>1</sup> pursuant to section 205 of the Federal Power Act<sup>2</sup> Northern States Power Company, a Minnesota corporation (NSP Minnesota) and Northern States Power Company, a Wisconsin corporation (NSP Wisconsin) (jointly, NSP Companies), filed revisions to the Restated Agreement to Coordinate Planning and Operations and Interchange Power and Energy (Interchange Agreement) between NSP Minnesota and NSP Wisconsin. NSP Companies propose revisions to Exhibit V and Exhibit V, Schedule 8.2 of the Interchange Agreement to insert an allocation method for NSP Companies to share the costs incurred by NSP Minnesota associated with the cancelled Prairie Island Extended Power Uprate (Prairie Island Project). For the reasons discussed below, we accept the proposed revisions, effective January 1, 2016, as requested.

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<sup>1</sup> In the September 23 Amendment, NSP Companies report on the status of certain retail cases related to the December 22 Filing and include amended tariff records in e-Tariff to change the proposed effective date for the filing to January 1, 2016. The September 23 Amendment made no further revisions to the December 22 Filing.

<sup>2</sup> 16 U.S.C. § 824d (2012).

## **I. Background**

2. NSP Companies state that NSP Minnesota is an investor-owned corporation engaged in the business of generating, transmitting, distributing, and selling electric power and energy-related services in the states of Minnesota, North Dakota, and South Dakota. They similarly state that NSP Wisconsin is an investor-owned corporation engaged in the business of generating, transmitting, distributing, and selling electric power and energy-related services in the states of Wisconsin and Michigan. NSP Companies are wholly-owned utility operating company subsidiaries of Xcel Energy Inc.

3. NSP Companies state that the Interchange Agreement is a formula rate that provides for charges between NSP Minnesota and NSP Wisconsin for certain electric production and transmission costs related to their integrated electric system (the NSP System) which allows for fully equalized sharing of NSP System production and transmission costs on a load-ratio-share basis. The stated objectives of the Interchange Agreement are as follows:

[T]o provide the contractual basis for the continued planning and operation of the power supply facilities of the Parties in such a manner as to achieve the maximum possible economies consistent with the highest practicable reliability of service and (2) to provide the basis for determining the amounts of power and energy needed to be sold among the Parties and the charges for such sales in order to equalize the Parties' unit costs of power supply.<sup>[3]</sup>

4. The charges between NSP Companies are intended to accomplish the sharing of such costs. NSP Companies explain that fixed charges under the Interchange Agreement are based on 36 months of monthly coincidental peak demand data, with 18 months of historical data and 18 months of forecast data. Pursuant to the terms of the Interchange Agreement, NSP Companies state that they annually restate or update certain exhibits to the Interchange Agreement.<sup>4</sup> In addition, NSP Companies state that it is longstanding

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<sup>3</sup> NSP Companies December 22 Filing at 6 (citing Interchange Agreement, § 2).

<sup>4</sup> NSP Companies note that the 2014 update to the Interchange Agreement was accepted by delegated letter order on June 10, 2014. *N. States Power Co. (Minn.)*, Docket No. ER14-1325-002 (Jun. 10, 2014) (delegated letter order).

practice for the Interchange Agreement recoveries to reflect the ratemaking and other decisions of the relevant jurisdictional state commission.<sup>5</sup>

## **II. Proposed Revisions to the Interchange Agreement**

5. NSP Companies propose revisions to Exhibit V and Exhibit V, Schedule 8.2 of the Interchange Agreement. NSP Companies state that the revisions are necessitated by the cancellation of the Prairie Island Project. NSP Companies state that the Prairie Island Project was intended to increase the generating capacity of two units at the Prairie Island nuclear generating plant in order to meet the anticipated NSP System capacity and energy needs (i.e., the needs of both NSP Companies).

6. NSP Companies state that due to factors outside their control, including unanticipated delays in obtaining Nuclear Regulatory Commission approvals for the Prairie Island Project and decreases in the costs of alternative sources of energy, the expected benefits from the Prairie Island Project were reduced to an extent that the project was no longer economical. NSP Companies state that the Minnesota Public Service Commission (Minnesota Commission), which granted a certificate of need for the Prairie Island Project in 2009, approved cancellation prospectively by an order dated February 27, 2013. NSP Companies also state that the proposal in this proceeding is consistent with the approval NSP Minnesota sought in its 2014 test year retail rate case before the Minnesota Commission where, among other things, the prudence of the Prairie Island Project cancellation was under review.<sup>6</sup>

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<sup>5</sup> As an example, NSP Companies point to the service lives, net salvage rates, and mortality curves used to establish the depreciation rates used by each NSP Company in the Interchange Agreement, which they state reflects the composite of the decisions of NSP Companies' state regulatory commissions. NSP Companies December 22 Filing at 4 (citing *N. States Power Co. (Minn.)*, Docket Nos. ER14-846-000 and ER14-846-001 (April 2, 2014) (delegated letter order) (accepting by delegated authority amendments to the Interchange Agreement to recognize a change to NSP Minnesota's book recovery (i.e., depreciation and amortization) of electric transmission plant ordered by the Minnesota Commission); and *N. States Power Co. (Minn.)*, Docket No. ER14-1325-000, *et al.* (June 10, 2014) (delegated letter order) (accepting by delegated authority amendments to the Interchange Agreement to reflect the 2014 NSP Wisconsin remaining lives and depreciation rates approved by the Public Service Commission of Wisconsin) (Wisconsin Commission)).

<sup>6</sup> See NSP Companies September 23 Amendment at 2 (referencing *In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E-002/GR-13-868 (Minnesota Commission May 8, 2015)).

7. On May 8, 2015, the Minnesota Commission issued an order accepting a settlement of the rate case and found that NSP Minnesota had acted in good faith in developing the project and cancelling it. The Minnesota Commission also authorized retail rate recovery of all of the cancelled project costs, totaling \$78.88 million. On August 31, 2015, the Minnesota Commission issued a final order affirming its findings as to the Prairie Island Project cancellation costs.<sup>7</sup>
8. NSP Companies state that the total costs incurred for the Prairie Island Project prior to cancellation, including amounts recorded for Allowance for Funds Used During Construction (AFUDC), are \$78.885 million.<sup>8</sup> NSP Companies also state that these costs are recorded in Account 182.2, Unrecovered Plant and Regulatory Study Costs.
9. Under the proposed revisions to the Interchange Agreement, NSP Companies seek to assign approximately 15 percent of the total cancellation costs (\$12 million) to NSP Wisconsin, reflecting the most recent coincident peak demand ratios approved for the Interchange Agreement in Docket No. ER14-1325-000. They add that the proposed revisions to the Interchange Agreement also apply the weighted cost of debt-only return in the rate calculation and utilize an amortization period of the remaining life of the Prairie Island Project, which is 18.3 years from an anticipated effective date of January 1, 2016. Exhibit V, Schedule 8.2 includes an amortization of the Prairie Island Project cancellation costs at \$654,359 as an annual demand cost to be billed to NSP Wisconsin over the remaining life of the Prairie Island units and 2016 billings to NSP Wisconsin of approximately \$810,056, including a return on rate base calculated at NSP Minnesota's weighted cost of debt.<sup>9</sup> NSP Companies note that the total annual charge to NSP Wisconsin will decline over time as the remaining amount on rate base is amortized.<sup>10</sup>
10. In addition, NSP Companies propose to add new language to Interchange Agreement Exhibit V, Formula Type Procedures for Development of Demand Related Costs. They explain that this new language creates a separate calculation that is necessary because the Prairie Island Project cancelled project costs will use a weighted debt-only return and therefore the balances should not be included with other demand-related rate base amounts using weighted cost of capital.<sup>11</sup> NSP Companies state that this

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<sup>7</sup> NSP Companies September 23 Amendment at 3.

<sup>8</sup> NSP Companies December 22 Filing at 2.

<sup>9</sup> *Id.* at 9.

<sup>10</sup> *Id.* (citing *see* Ex. NSP-4).

<sup>11</sup> *Id.*

will result in a Fixed Charge on Investment and the Prairie Island Project cancelled project costs amortization expense will be recorded by NSP Minnesota in Account 407, Amortization of Property Losses, Unrecovered Plant and Regulatory Study Costs.

11. NSP Companies state that they do not believe the proposed revisions to the Interchange Agreement to include the Prairie Island Project cancellation costs are subject to the Commission's 50/50 cost sharing allocation rule and one-year filing requirement articulated in Opinion No. 295.<sup>12</sup> NSP Companies argue that while the Interchange Agreement is a rate schedule on file with the Commission, the Interchange Agreement does not provide specific wholesale rates to customers, but, rather, solely relates to the sharing of NSP System costs between NSP Minnesota and NSP Wisconsin. They argue that the balance of equitable sharing between investors and ratepayers that the Commission intended in its adoption of the 50/50 policy in Opinion No. 295 is not implicated by the instant filing because no rates of wholesale customers are affected by the proposed recovery of the Prairie Island Project cancellation costs. According to NSP Companies, only the sharing of the cost burden of the cancelled project between NSP Wisconsin and NSP Minnesota is at issue.

12. NSP Companies state that "neither NSP Company provides cost-based wholesale requirements service to a single municipal customer. As such, the proposed sharing of the cancelled project costs only affects the retail customers of [NSP Minnesota] and [NSP Wisconsin]."<sup>13</sup> Additionally, NSP Companies argue that the Commission has acknowledged that cost allocation is a different issue than cost recovery.<sup>14</sup> They contend that all ultimate rate recovery for the Prairie Island Project cancellation costs would occur at the retail level through retail rate cases. NSP Companies note that the Commission approved revisions to the predecessor of the Interchange Agreement (the Coordination Agreement Among Northern States Power Company (Minnesota) and Northern States Power Company (Wisconsin)) to allow NSP Wisconsin to include as a demand cost \$7.5 million annually associated with the cancelled Tyrone Nuclear Power Plant until

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<sup>12</sup> *Id.* at 10 (citing *New England Power Co.*, Opinion No. 295, 42 FERC ¶ 61,016, *order on reh'g*, Opinion No. 295-A, 43 FERC ¶ 61,285 (1988)).

<sup>13</sup> *Id.* at n.37.

<sup>14</sup> *Id.* at 11 (citing *Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities*, Order No. 1000, FERC Stats. & Regs. ¶ 31,323, at P 563 (2011), *order on reh'g*, Order No. 1000-A, 139 FERC ¶ 61,132, *order on reh'g and clarification*, Order No. 1000-B, 141 FERC ¶ 61,044 (2012), *aff'd sub nom. S.C. Pub. Serv. Auth. v. FERC*, 762 F.3d 41 (D.C. Cir. 2014)).

amortization was completed.<sup>15</sup> To the extent Opinion No. 295 is deemed applicable, NSP Companies request waiver to permit NSP Companies to share the costs of the cancelled project as proposed in the instant filing.

13. In the September 23 Amendment, the NSP Companies reiterate their request that the Commission accept the revised tariff sheets to the Interchange Agreement for filing with an effective date of January 1, 2016, and request all waivers requested in the December 22 Filing<sup>16</sup> or otherwise necessary to allow the tariff sheets to be effective as proposed. They state that a January 1, 2016 effective date would allow the Interchange Agreement to synchronize charges to NSP Wisconsin with recovery in NSP Wisconsin's 2016 test year retail rate case in Wisconsin, NSP Wisconsin's primary retail jurisdiction.

### **III. Notice of Filing**

14. Notice of NSP Companies' December 22 Filing was published in the Federal Register, 79 Fed. Reg. 78,846 (2014), with interventions and comments due on or before January 12, 2015. The Wisconsin Commission filed a notice of intervention.

15. Notice of NSP Companies' September 23 Amendment was published in the Federal Register, 80 Fed. Reg. 59,762 (2015), with interventions and comments due on or before October 14, 2015. None was filed.

### **IV. Discussion**

#### **A. Procedural Matters**

16. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2015), the Wisconsin Commission's notice of intervention serves to make it a party to this proceeding.

#### **B. Commission Determination**

17. We will accept NSP Companies' proposed revisions to Exhibit V and Exhibit V, Schedule 8.2 of the Interchange Agreement to allow NSP Minnesota to include in system demand costs amortization of the costs it incurred associated with the cancelled Prairie

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<sup>15</sup> *Id.* at 5 (citing *N. States Power Co. (Minn.) and N. States Power Co. (Wis.)*, 9 FERC ¶ 61,061 (1979), *order on reh'g*, 13 FERC ¶ 63,049 (1980), *order on reh'g*, Opinion No. 134, 17 FERC ¶ 61,196 (1981)).

<sup>16</sup> As the January 1, 2016 effective date was more than 120 days after the December 22 Filing, NSP Companies requested waiver of the notice requirement, 18 C.F.R. § 35.3(a)(1) (2015).

Island Project to be billed to NSP Wisconsin over the remaining life of the Prairie Island units. We find that NSP Companies' proposal to allocate 15 percent of the Prairie Island Project cancellation costs to NSP Wisconsin is consistent with the allocation method approved for the Interchange Agreement. In addition, we agree with NSP Companies that the conditions underlying the Commission's cancelled cost policy as set forth in Opinion No. 295 are not present under these circumstances.

18. In Opinion No. 295, the Commission found that prudently incurred abandoned plant costs should be equitably allocated between ratepayers and shareholders, and also specified how to determine amortization periods. The Commission stated that because both ratepayers and shareholders benefit when a successful project is completed, they should similarly share the cost when a project that was prudent at its inception is abandoned.<sup>17</sup> The Commission therefore adopted a 50/50 cost sharing policy to achieve a more "equitable balance" between ratepayers and shareholders. Under this cost sharing policy, the Commission permitted New England Power Company to amortize 50 percent of its investment over a period reflecting the life of a cancelled plant had it been completed, and to include the unamortized portion of this 50 percent in rate base, reduced by 50 percent of the total accumulated deferred income taxes. The Commission required New England Power Company to write off the remaining 50 percent of the investment below the line.<sup>18</sup>

19. The concerns underlying the Commission's 50/50 sharing policy are not implicated here. There is no issue here concerning the appropriate equitable balance between the interests of shareholders and ratepayers. The Interchange Agreement is a means of providing fully equalized sharing of NSP System production and transmission costs between NSP Minnesota and NSP Wisconsin—not a traditional wholesale formula that sets rates for sales to wholesale customers. As NSP Companies explain, the proposed sharing of the cancelled project costs only affects the retail customers of NSP Minnesota and NSP Wisconsin. All ultimate rate recovery for the Prairie Island Project cancellation costs will occur at the retail level through retail rate cases and no rates of wholesale customers are affected by the proposed recovery of the Prairie Island Project cancellation costs. Therefore, we find that Opinion No. 295 does not apply and that NSP Companies' proposed cost allocation method in the Interchange Agreement is appropriate.

20. We also find that because the September 23 Amendment revised the tariff records with the proposed revisions to Exhibit V and Exhibit V, Schedule 8.2 of the Interchange Agreement to change the proposed effective date for the filing to January 1, 2016, the

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<sup>17</sup> Opinion No. 295, 42 FERC at 61,078.

<sup>18</sup> *Id.* at 61,082.

waiver of the 120-day notice requirement under section 35.3(a)(1) of the Commission's regulations is unnecessary. Accordingly, for the reasons discussed above, we accept NSP Companies' proposed tariff revisions to Exhibit V and Exhibit V, Schedule 8.2 of the Interchange Agreement, effective January 1, 2016, as requested.

The Commission orders:

NSP Companies' proposed tariff revisions to Exhibit V and Exhibit V, Schedule 8.2 of the Interchange Agreement are hereby accepted for filing, effective January 1, 2016, as discussed in the body of this order.

By the Commission.

( S E A L )

Nathaniel J. Davis, Sr.,  
Deputy Secretary.