

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

David C. Boyd	Chair
J. Dennis O'Brien	Commissioner
Thomas Pugh	Commissioner
Phyllis A. Reha	Commissioner
Betsy Wergin	Commissioner

In the Matter of the Petition of Northern States
Power Company for Deferred Accounting
Treatment of Costs Relating to Identifying and
Eliminating Sewer/Natural Gas Line Conflicts

ISSUE DATE: January 12, 2011

DOCKET NO. G-002/M-10-422

ORDER GRANTING DEFERRED
ACCOUNTING TREATMENT SUBJECT
TO CONDITIONS AND REPORTING
REQUIREMENTS

PROCEDURAL HISTORY

On April 30, 2010, Northern States Power Company d/b/a Xcel Energy filed a petition requesting deferred accounting treatment for costs it expects to incur to implement an inspection and remediation plan required by the Minnesota Office of Pipeline Safety to identify and remediate all situations in which the Company's natural gas lines intersect with municipal sewer lines. That Office required the plan after issuing a Notice of Probable Violation against the Company in connection with a February 2010 natural gas explosion on its distribution system.

On August 30, 2010, the Office of Energy Security of the Minnesota Department of Commerce (OES) filed comments recommending that the Commission grant the petition with conditions, including limiting deferred accounting treatment to costs incurred for *external* resources, and subject to reporting requirements. The Company concurred in this recommendation.

On December 21, 2010, the petition came before the Commission.

FINDINGS AND CONCLUSIONS

Deferred accounting is a valuable regulatory tool used primarily to hold utilities harmless when they incur out-of-test-year expenses that, because of their nature or size, should be eligible for possible rate recovery as a matter of public policy. Traditionally, deferred accounting has been reserved for costs that are unusual, unforeseeable, and large enough to have a significant impact on the utility's financial condition. Deferred accounting has also sometimes been permitted when utilities have incurred sizeable expenses to meet important public policy mandates.

The Commission concurs with the Company and the OES that deferred accounting treatment is appropriate for the external operating and maintenance costs incurred to implement this inspection and remediation plan. The costs are unusual, were unforeseeable, and will be large enough to have a significant impact on the Company's financial condition. Further, they will be incurred to comply with an order of the Minnesota Office of Pipeline Safety, implicating both the statutory requirement to recognize pipeline-safety costs in the ratemaking process¹ and the traditional consideration accorded costs incurred to meet important public policy mandates.

Of course, granting deferred accounting neither guarantees rate recovery nor creates a presumption of rate-recoverability; it merely reflects a Commission finding that the costs in question warrant deferral for consideration in a later rate-setting proceeding. To ensure adequate review in that proceeding, the Commission will establish the reporting requirements recommended by the OES, in which the Company concurs.

The Commission will also set reporting requirements to ensure adequate information about the natural gas explosion that led to the Office of Pipeline Safety's order – including related litigation and potential third-party recovery – and to provide adequate information about the level of costs the Company would have incurred if inspection and remediation had been undertaken earlier.

The Commission will so order.

ORDER

1. The Commission authorizes the Company to use deferred accounting treatment for the external operating and maintenance costs incurred to implement the inspection and remediation plan submitted to the Minnesota Office of Pipeline Safety in response to that Office's Notice of Probable Violation following the natural gas explosion of February 1, 2010. This authorization applies to costs incurred on and after May 10, 2010.
2. The Company shall include as a separate item in the deferred account any revenues or savings that result from implementing the inspection and remediation plan.
3. Beginning January 30, 2011, the Company shall make an annual filing summarizing costs incurred and deferred under this order, using a format similar to the one used in Attachment C, attached to its petition.
4. The Company shall promptly file an update as a compliance filing in this docket if at any point costs deferred under this order exceed \$3,500,000 on an annual basis.
5. At least 60 days before filing its next general rate case, the Company shall file a summary of all costs deferred under this order, using a format similar to the one used in Attachment C, attached to its petition.

¹ Minn. Stat. § 216B.16, subd. 11.

6. In any future filing seeking rate recovery of costs deferred under this order, the Company shall include the following information:
 - A. Justification for the outsourcing of any tasks required to implement the inspection and remediation plan.
 - B. Details of the final resolution of the Notice of Probable Violation and the status of any proposed penalties.
 - C. Discussion and explanation of any legal actions or settlements regarding the natural gas explosion that led to the Notice of Probable Violation.
 - D. Discussion and analysis regarding any potential third-party recovery for the costs of the plan.
 - E. Discussion, analysis, and documentation demonstrating that plan costs were prudent.
 - F. Analysis of what it would have cost to conduct the plan over a ten-year period beginning in 2003.
7. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary



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