STATE OF SOUTH DAKOTA
BEFORE THE
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION OF NORTHERN STATES POWER COMPANY D/B/A XCEL ENERGY TO ESTABLISH A TRANSMISSION COST RECOVERY TARIFF AND FOR APPROVAL OF 2007 PLANNED TRANSMISSION INVESTMENTS TO BE INCLUDED IN RATES	DOCKET NO. ___________ **PETITION FOR TRANSMISSION COST RECOVERY**

INTRODUCTION

Pursuant to SDCL Chapter 49-34A Sections 25.1 through 25.4 relating to approval of tariff mechanisms for automatic annual adjustment of charges for jurisdictional costs of new or modified transmission facilities, Northern States Power Company, a Minnesota corporation and wholly owned subsidiary of Xcel Energy Inc. ("Xcel Energy" or the "Company") petitions the South Dakota Public Utilities Commission (the "Commission") for approval of a new tariff establishing a Transmission Cost Recovery Rider ("TCR Rider") to incorporate legislation enacted during the 2006 Legislative Session. The Company also seeks approval to implement the tariff by including the allocated jurisdictional costs in the TCR Rider for transmission project expenditures that are planned to be made in 2007.

HB 1091 passed by the South Dakota Legislature in 2006 authorizes the Commission to approve a tariff mechanism for the automatic annual adjustment of charges for a public utility to recover the South Dakota jurisdictional portion of eligible investments in and expenses related to new or modified transmission resources. The statute defines eligible projects as new or modified transmission facilities with a design capacity of thirty-four and one-half kilovolts or more and which are more than five miles in length. Electric transmission facilities and electric transmission lines covered by this statute also include associated facilities such as substations and transformers.

By allowing public utilities the opportunity to implement a cost recovery mechanism for investments in new transmission facilities, the 2006 legislation is designed to spur such investment, which will, in turn, improve the capacity and reliability of the electric transmission system in South Dakota.

Following is information specified in South Dakota Administrative Rule 20:10:13:26 regarding the proposed new tariff and rate rider:

(1) Name and address of the public utility;

Northern States Power Company d/b/a Xcel Energy
500 West Russell Street
Sioux Falls, South Dakota 57104
(605) 339-8350

(2) Section and sheet number of tariff schedule;

Xcel Energy proposes to add Transmission Cost Recovery Rider tariff sheet numbers 71 and 71.1 to Section 5 of the Northern States Power Company South Dakota Electric Rate Book. Exhibit 5, Attachment 1, pages 1 and 2 depict the proposed tariff sheets that would implement this proposed transmission cost recovery rider.

(3) Description of the change;

This proposed tariff and rate rider seeks to implement the intent of South Dakota Legislature HB1091 - An Act to authorize the Public Utilities Commission to approve tariff mechanisms for the automatic annual adjustment of charges for jurisdictional costs of new or modified transmission facilities which passed the South Dakota Legislature during the 2006 session and was signed into law by the Governor. The language of the bill is now codified as SDCL 49-34A-25.1-4. This request proposes to establish a new tariff and rate rider that would provide for cost recovery of transmission facilities. The rate rider described and proposed in this filing would be implemented through a separate line item on customer bills.

(4) Reason for the change;

This request proposes to implement SDCL 49-34A-25.1-4 for Xcel Energy, which is designed to allow timely recovery of the jurisdictional costs of new or modified transmission facilities by public utilities, thus eliminating unnecessary carrying costs to the utilities and reducing “rate shock’ to customers.

(5) Present rate;

None

(6) Proposed rate;

A. Proposed Tariff

i. Authority

SDCL 49-34A-25.1 allows public utilities to file for Commission approval of a mechanism to recover the South Dakota jurisdictional portion of investments and expenditures for certain new transmission facilities. This petition seeks approval of a TCR Rider that would comply with this statute. Following throughout is text from the statutes along with an explanation of how the Company proposes to incorporate provisions of the statute into the proposed TCR Rider tariff or rate. A proposed TCR Rider tariff sheet is provided in Exhibit 5, Attachment 1. Beginning with the statutory enabling clause:

> ***SDCL 49-34A-25.1 -*** *Notwithstanding any other provision of this chapter, the commission may approve a tariff mechanism for the automatic annual adjustment of charges for the jurisdictional costs of new transmission facilities with a design capacity of thirty-four and one-half kilovolts or more and which are more than five miles in length. For the purposes of §§49-34A-25.1 to 49-34A-25.4, inclusive, electric transmission facilities and electric transmission lines covered by this section include associated facilities such as substations and transformers.*

This statute establishes Commission authority for considering and approving the tariff mechanism being sought in this petition. The language also defines which transmission facilities should be eligible for consideration of cost recovery under a TCR Rider. That is, new lines at 34.5 kV or more and greater than five miles in length as well as other facilities needed to connect and enable the operation of the power system should be considered for eligibility for cost recovery through this rider mechanism.

SDCL 49-34A-25.2 - *Upon filing of an application consistent with rules promulgated by the commission by any public utility providing transmission service, the commission may approve, reject, or modify, after notice, hearing, and comment, a tariff that:*

(1) Allows the public utility to recover on a timely basis the costs net of revenues of facilities described in § 49-34A-25.1;

The Company proposes to include the jurisdictional annual revenue requirements, within the TCR Rider, associated with transmission projects that are determined by the Commission to be eligible for recovery under SDCL 49-34A-25.1.

ii. Implementation

Exhibit 5, Attachment 1, pages 1 and 2 depict proposed tariff sheets implementing this proposed transmission cost recovery rider. The Company proposes administering a separate TCR adjustment factor for each of four categories of customers: residential, commercial (non-demand), demand billed and street lighting. These four categories are distinguished by the various load factors and typical characteristics of the behavior of their electrical usage patterns.

This TCR Rider is proposed to be made based on forecast costs for the upcoming calendar year. In order to correct those forecasts after-the-fact and "true" this rider "up," the Company proposes an adjustment by May 1 of the following calendar year that would be included in the TCR Tracker Account and used in the development of the rate for each customer group in the Company's next annual rate rider filing. The Company proposes to file annually by September 1 for rates effective for the next calendar year.

B. Eligible Transmission Projects

i. Summary

The Company is currently making significant new investments in the transmission system to support the further development of wind generation resources on the Buffalo Ridge area of eastern South Dakota and western Minnesota.

This petition includes a request to approve the costs associated with six proposed projects that the Company believes meet the eligibility criteria established in SDCL 49-34A-25.1.

In summary, these six projects include the following:

Project 1. An 825 MW Wind upgrade – the main project.
Project 2. Yankee Wind Collector station. This is a new substation.
Project 3. Fenton Wind Collector station. This is a new substation.
Project 4. Lakefield Jct – Wilmarth 345KV Series Capacitor.
Project 5. Nobles County Wind Collector station. This is a new substation.
Project 6. Rock County Wind Collector station. This is a new substation.

More detailed descriptions of these projects can be found in Exhibit 1, Attachment 1.

ii. Supporting Information

The Transmission Cost Recovery Statute requires certain information be provided in support of this request. This required information is provided within exhibits included with this Petition.

> *SDCL 49-34A-25.3.* states: *A public utility may file annual rate adjustments to be applied to customer bills paid under the tariff approved pursuant to § 49-34A-25.2. In the utility's filing, the public utility shall provide:*
> *(1) A description of and context for the facilities included for recovery;*

Exhibit 1, Attachment 1, contains the descriptions of projects the Company believes are eligible for recovery under the Transmission Statute through the TCR rider. The Company provides a description and context for each project included for recovery in that exhibit. Exhibit 1, Attachment 4 provides a map corresponding to the facilities described in Exhibit 1, Attachment 1.

> *(2) A schedule for implementation of applicable projects;*

Exhibit 1, Attachment 2, contains an implementation schedule for each of the transmission projects identified in Exhibit 1, Attachment 1.

(3) The public utility's costs for these projects;

Exhibit 1, Attachment 3 depicts the capital expenditure forecast for each identified project. Capital expenditures are accumulated from project inception through March 1, 2007 and then reported annually thereafter. Exhibit 2, Attachment 2 schedules one through nine, depict the development of 2007 revenue requirements on a project by project basis for the South Dakota jurisdiction, based on the capital expenditures referenced in Exhibit 1, Attachment 3. Revenue requirements are allocated to the South Dakota jurisdiction based on the relative demand of State of South Dakota customers to the demand of all customers of the Company and Northern States Power Company, a Wisconsin corporation ("NSPW"). (Development of the allocators is depicted on Exhibit 4, Attachment 1)

(4) A description of the public utility's efforts to ensure the lowest reasonable costs to ratepayers for the project; and

The Company has made extensive efforts to ensure the lowest reasonable cost to ratepayers for the proposed TCR-eligible projects. First, during the planning for the first Buffalo Ridge wind outlet expansion project, several options were studied to evaluate the effect that each option would have on increasing wind generation outlet capability from the Buffalo Ridge area to the Company's load centers. The option, which included projects that achieved the greatest incremental wind outlet at the lowest total cost, including reduced losses, was selected. Second, where possible, Xcel Energy has competitively bid engineering, equipment procurement and construction. Third, Xcel Energy has developed a standard design for collector stations, thereby minimizing design and engineering costs. Finally, Company analysis determined that alternative design options would have been substantially more expensive.

(5) Calculations to establish that the rate adjustment is consistent with the terms of the tariff established in § 49-34A-25.2.

Exhibit 2, Attachment 1, Schedule 3 contains the calculation of the proposed 2007 TCR rate adjustment by customer group. The Company provides the detail of these calculations under the Cost Recovery section of this Petition. We believe that these calculations are consistent with the terms of the TCR tariff proposed and described in Exhibit 5, Attachment 1.

SDCL 49-34A-25.4 - Upon receiving a filing under § 49-34A-25.3 for a rate adjustment pursuant to the tariff established in § 49-34A-25.2, the commission shall approve the annual rate adjustments if, after notice, hearing, and comment, the costs included for recovery through the tariff were or are expected to be prudently incurred and achieve transmission system improvements at the lowest reasonable cost to ratepayers.

Based on the information provided in this Petition and the merits of the projects for which the Company requests recovery under the Transmission Cost Recovery Statute, Xcel Energy respectfully requests Commission approval of these projects for TCR recovery.

C. Tracker Account and Accounting

i. TCR Tracker Account

The Company proposes to use a tracker account ("Tracker") as the accounting mechanism for eligible TCR project costs. The revenue requirements to be included in the Tracker will be only those related to South Dakota's share of eligible projects. In making our calculations, the Company will use the most current data available at the time of the annual filings and will:

- Allocate a share of the total costs to NSPW by multiplying total eligible costs by the Company's currently effective 36-month coincidental peak demand factor established under the "Interchange Agreement" between the Company and NSPW.

- Exclude the portion of Company costs not related to serving South Dakota retail customers by multiplying the Company portion of the total by the South Dakota demand allocation factor. This step allocates a share of costs to the North Dakota and Minnesota retail jurisdictions, and to the firm requirements wholesale sales jurisdiction.

The result of this allocation process is that South Dakota electric customers would be allocated approximately 4% of the total costs. By performing this cost allocation process, we ensure that electric customers in other jurisdictions are allocated a share of TCR revenue requirements, consistent with the Company's allocation of similar costs in a general rate case.

Pursuant to the proposed tariff, Xcel Energy would file by September 1 of each year a forecast of the total revenue requirements needed to recover costs over the upcoming year, and the corresponding rate adjustment factors. After review and comment, the Commission determines whether forecasted revenue requirements and associated rate adjustment factors are appropriate and eligible for recovery.

Each month as revenues are collected from retail customers, the Company will track the amount of recovery under the TCR rate adjustment and compare that amount with the monthly revenue requirements. The difference will be recorded in the Tracker account as the amount of over/under recovery. Any over- or under-recovery balance at the end of the year will be used to calculate the rate adjustment factor for the collection of the next year's forecasted revenue requirement.

Because the Company proposes to use forecast revenue requirement information to set the rate adjustment factors, we do not propose to calculate carrying charges on the monthly balance in the Tracker. Carrying charges on the Tracker balance should not be necessary (or significant) since the recovery on an annual basis should match closely the costs incurred.

ii. Proposed Accounting for the Tracker

Xcel Energy proposes to calculate the monthly South Dakota jurisdictional revenue requirements (including appropriate overall return, income taxes, property taxes and depreciation), compare them with monthly TCR rate rider recoveries from customers and place the net amount in FERC Account 182.3, Other Regulatory Assets (the Tracker Account).

D. Project Cost Recovery

i. Summary

The Cost Recovery and TCR Rate section provides support for the proposed 2007 TCR adjustment rates. This information may be summarized as follows:

- The projected TCR tracker activity for 2007, including both revenue requirements and projected revenues, is included in Exhibit 2, Attachment 1, Schedule 1.
- The projected 2007 revenue requirements proposed to be recovered under the TCR adjustment rates from South Dakota electric customers are approximately

$800,000. Support for this amount is included in Exhibit 2, Attachment 2. These calculations are discussed in detail below.

- Projected revenues are calculated by customer group as shown in Exhibit 2, Attachment 1, Schedule 2, and are based on forecast 2007 State of South Dakota billing month sales from March through December.
- The development of the TCR adjustment factors is included in Exhibit 2, Attachment 1, Schedule 3. The proposed factors by customer group are shown on the next page.

ii. Proposed 2007 TCR Adjustment Factors

The Company's TCR rate design provides for rates specific to four customer groups (residential, commercial non-demand, demand and street lighting) and uses transmission demand and sales allocators approved by the Commission in the Company's last electric rate case.

The Company proposes to combine demand-billed customers into one group. In doing so the application of the proposed TCR cost allocation is consistent with the design of demand-billed tariffs. Although voltage-based discounts apply to demand and energy charges of demand-billed tariffs, the base demand and energy charges are developed with the joint load characteristics of all demand-billed customers. Under the proposed TCR Rider rate design, we propose to use the "D10C" transmission demand allocator.

The proposed TCR Rider rate design converts the allocated cost for each group into an Adjustment Factor per kWh. In the proposed TCR Rider rate design, the most recent electric rate case defines both the demand allocator and the sales that are used to determine group Adjustment Factors. This process provides appropriate TCR rate differentials by customer group by maintaining a comparable relationship between sales and the corresponding demand allocation.

A four-step process is proposed to implement this calculation. In the first step, we will determine a weighting factor for each customer group, which defines the cost responsibility relative to the average retail cost. We will calculate group weighting factors by dividing the demand allocation percentage for each customer group by the corresponding sales allocation percentage for the same customer group. In the second step, we will calculate the sales factor adjustment by multiplying the sales for the period by customer group by the group weighting factor. The third step will calculate an "adjusted" group weighting factor by multiplying the group weighting factor by the sales adjustment factor, to account for the change in the class sales distribution from the last test year. Finally, the TCR Adjustment Factors by customer group are determined by multiplying each adjusted group weighting factor by the average retail cost per kWh. The average retail cost per kWh is calculated by dividing the South Dakota electric retail cost by retail sales (March to December 2007). Attachment 2, Schedule 3, 2007 South Dakota TCR Adjustment Calculation, demonstrates the above described process.

Based on this rate design, we propose the following 2007 TCR adjustment factors:

	Rate/kWh
Residential	$0.00065
Commercial Non-Demand	$0.00053
Demand Billed	$0.00042
Street Lighting	$0.00035

The average bill impact for a residential customer using 750 kWh per month would be $0.49 per month.

iii. 2007 TCR Rider Revenue Requirements

The 2007 revenue requirements in support of the proposed TCR adjustment rates are set forth in Exhibit 2, Attachment 2. In the proposed Tariff (Exhibit 5, Attachment 1) the Company proposes the following tariff language, "Recoverable Transmission Costs shall be the annual revenue requirements associated with transmission projects eligible for recovery under SDCL 49-34A-25.1 that are determined by the Commission to be eligible for recovery under this Transmission Cost Recovery Rider."

The Transmission Statute provides guidance on the calculation of revenue requirements in SDCL 49-34A-25.2. The Company incorporates Parts 2 through 5 of that section into the Transmission project revenue requirements model in 2007. The following explains how we propose to implement these provisions:

> SDCL 49-34A-25.2 (2) *Allows a return on investment at the level approved in the public utility's last general rate case, unless a different return is found to be consistent with the public interest.*

The overall rate of return from the 1992 Electric Rate Case (9.54%) was used to calculate the return on construction work in progress ("CWIP") and rate base. This includes an 11.25% return on equity and an equity ratio of 49.89%. (See the base assumptions in Exhibit 3, Attachment 1).

> SDCL 49-34A-25.2 (3) *Provides for a current return on construction work in progress, if the recovery from retail customers for the allowance for funds used during construction is not sought through any other mechanism.*

The Company's TCR revenue requirement model includes a current return on capital expenditures beginning with the cumulative CWIP balance for each project at March 1, 2007, or the date construction expenditures begin after that date, whichever is sooner. The beginning CWIP balance includes Allowance for Funds Used During Construction ("AFUDC") incurred prior to March 1, 2007. After that date, the South Dakota jurisdictional portion of costs does not include AFUDC and a current return is calculated on the CWIP balance. Please note that capital projects included in this request are not being recovered from South Dakota customers under any other mechanism.

> SDCL 49-34A-25.2*(4) Allocates project costs appropriately between wholesale and retail customers;*

Project costs are allocated to the State of South Dakota retail jurisdiction based on the demand allocator, excluding demands for NSPW as well as the Company's North Dakota, Minnesota and wholesale customer demands. In addition, to ensure no double recovery occurs from Open Access Transmission Tariff ("OATT") revenue collected from non-NSP transmission customers, the Company will apply a OATT revenue credit calculated based on a forecast of OATT revenue collections divided by the transmission revenue requirements included in the OATT rate calculation for the Company's pricing zone under the Midwest ISO Transmission and Energy Markets Tariff ("MISO TEMT"). Transmission assets are included in the OATT revenue requirement calculation under Attachment O to the MISO TEMT in the year after they are placed in service. Therefore, the OATT revenue credit will be applied to project revenue requirements the year after a transmission project is placed into service, since MISO OATT recovery lags the investment. Because this is the first year of the TCR adjustment rate, the Company does not apply an OATT revenue credit to any project in 2007.

For purposes of calculating actual revenue requirements, the Company proposes to use 2007 forecast demand allocators. Any resulting over/under recovery from customers as a result of the use of the 2007 demand factors will be reflected in the true up of 2007 revenues when determining the 2008 TCR adjustment rate. These demand allocators are computed in Exhibit 4, Attachment 1.

In addition to inclusion of the above provisions in the Transmission Statute project revenue requirements model, we also request inclusion of the following related costs: property taxes, current and deferred taxes and book depreciation. 2007 revenue requirements from March through December for these projects are approximately $800,000. Exhibit 2, Attachment 2, Schedules 1 through 9 show the revenue requirement calculations for the proposed TCR projects.

(7) Proposed effective date of modified rate;

The Company proposes that this new tariff and rate rider would be implemented beginning in the second calendar month following Commission approval of this docket consistent with the process developed in implementing the monthly fuel clause adjustment factor. The Company proposes to calculate the TCR factors based on forecasted sales over the remaining months of 2007 in an effort to match as closely as possible 2007 revenue recoveries and 2007 revenue requirements.

(8) Approximation of annual amount of increase in revenue;

Exhibit 2, Attachment 1, Schedule 1, shows the TCR Tracker Account activity from March through December 2007. This schedule summarizes the total revenue requirements for each qualifying TCR transmission project allocated to the South Dakota jurisdiction for 2007, totaling $802,018. If approved, this amount would be passed to customers in 2007 through this tariff mechanism thereby Company revenues should include this increase in 2007.

(9) Points affected;

The proposed tariff would be applicable to all areas served by Xcel Energy in South Dakota.

(10) Estimation of the number of customers whose cost of service will be affected and annual amounts of either increases or decreases, or both, in cost of service to those customers;

This tariff rider is proposed to be applied to all customers throughout all customer classes as described within the filing. Xcel Energy presently serves just over 78,000 customers in 36 communities in Eastern South Dakota.

(11) Statement of facts, expert opinions, documents, and exhibits to support the proposed changes.

Exhibits attached.

Planned Customer Notice

The Company plans to provide notice to customers regarding inclusion of this cost on their monthly electric bill. The following is proposed language to be included as a notice on the customers' bill the month the TCR factor is implemented:

> "The Transmission Cost Recovery Adjustment recovers the costs of transmission investments."

We will work with the Commission Staff to determine if there are any suggestions to modify this notice.

Conclusion

Xcel Energy respectfully requests that the Commission approve the proposed tariff and transmission cost recovery mechanism described in this filing. The proposed TCR Rider reflects the statutory changes adopted in the 2006 legislation. The Company plans to make significant investments in needed transmission infrastructure, and appreciates the interest and efforts of South Dakota policy makers in supporting that effort.

Dated: February 28, 2007
Northern States Power Company
d/b/a Xcel Energy

By: ______________________________

JAMES C. WILCOX
Manager, Government & Regulatory Affairs