
STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS
FROM: BRITTANY MEHLHAFF, PATRICK STEFFENSEN, ERIC PAULSON, & KRISTEN EDWARDS
RE: EL14-016 - In the Matter of the Petition of Northern States Power Company dba Xcel Energy for Approval of its 2014 Transmission Cost Recovery Eligibility and Rate Adjustment
DATE: April 8, 2014

BACKGROUND

On February 21, 2014, the South Dakota Public Utilities Commission (Commission) received a petition from Xcel for approval of a revised Transmission Cost Recovery (TCR) rider adjustment factor for 2014. The filing also requested approval of the 2013 tracker report for approved transmission project investments, expenditures, and revenues received.

South Dakota Codified Laws § 49-34A-25.1 through 25.4 authorize the Commission to approve a tariff mechanism for the automatic annual adjustment of charges for the jurisdictional costs of 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.

In Docket EL07-007, the Commission approved the establishment of the TCR rider to recover the costs associated with six transmission projects. These costs were incorporated into base rates during Xcel's 2009 rate case, Docket EL09-009. As such, in January 2010, the TCR rider adjustment factor was adjusted to remove the costs related to the six transmission projects and to collect only the remaining balance in the tracker account.

In Docket EL12-035, the Commission approved TCR recovery of the 2011-2012 revenue requirement associated with fourteen new transmission projects and MISO¹ Schedule 26 expenses. The Commission approved the Settlement Stipulation supporting the "refined split method" approach for allocating MISO approved cost-shared projects with company investment.

In Docket EL13-006, the TCR rate was set at \$0.00 beginning on July 1, 2013, for the remainder of 2013, due to a projected over-recovery of the 2013 TCR revenue requirements. On December 9, 2013, the Commission issued an Order Granting Joint Motion for Approval of Settlement Stipulation in Docket EL13-006. The approved Settlement Stipulation between Staff and Xcel set forth the estimated 2013 revenue requirements, including the transmission projects eligible for inclusion, continuance of the

¹ Midcontinent Independent System Operator, Inc.

“refined split method” for regional transmission investment, and the 2013 rate of return. The rate of \$0.00 as set on July 1, 2013, remained unchanged as a result of this settlement.

In this filing, Xcel requests to recover a projected 2014 revenue requirement of \$3,963,825 associated with 22 transmission projects and MISO Schedule 26 expenses. The request includes the 2013 over-recovered balance of \$407,217. The proposed 2014 revenue requirement results in a rate of \$0.002606 per kWh, calculated based on an April 1, 2014, effective date. The result is an increase of \$0.002606 per kWh to the current TCR rate of \$0.00.

The 22 transmission projects included in the Company’s 2014 revenue requirement determination were all approved for recovery in Dockets EL12-035 and EL13-006. The Company does not seek eligibility determinations of any new projects in Docket EL14-016.

Staff’s recommendation is based on its analysis of Xcel’s filing, discovery information, relevant statutes, and previous Commission orders. Staff reviewed the tracker report and the forecasted 2014 revenue requirement and rate calculation.

2013 TRACKER REPORT

The rate approved in Docket EL13-006 was based on the balance in the tracker account and the 2013 estimated revenue requirements. In this docket, Staff reviewed the revised 2013 revenue requirement to determine if the costs were prudent and at the lowest reasonable cost to ratepayers. Staff also reviewed the Company’s calculation of the under/over collection of costs incorporated in the new TCR rates, comparing actual recoveries to actual costs.

Attachment 6 summarizes the tracker activity by month for 2013. Individual project detail for the projects is found on Attachment 14.

Staff found no issues with the Company’s 2013 tracker report and agrees the over-collection of the remaining balance as of December 31, 2013, is \$407,217.

2014 TCR REVENUE REQUIREMENT

The total estimated 2014 revenue requirement of \$3,963,825, subject to later true-up to actual costs and recoveries, is based on the 2013 over-collection in the tracker account and the estimated 2014 revenue requirement associated with 22 transmission projects and MISO Schedule 26 and 26A expenses. Since the Company did not request cost recovery for any additional transmission projects, Staff’s review consisted of verifying the estimated revenue requirement calculation.

Xcel’s 2014 TCR continues to apply the provisions set forth in the Settlement Stipulation approved in Docket EL13-006. This includes the methodologies agreed to for each type of project:

- (1) New or modified projects, ineligible for cost-sharing through the MISO tariff;
- (2) MTEP-approved cost-shared projects without company investment; and
- (3) MTEP-approved cost-shared projects with company investment.

For a complete discussion on the methodology applied to each project type and the projects included in Xcel's TCR, please refer to Staff's memorandum filed in Docket EL13-006.

The 2014 revenue requirement continues to apply the other provisions agreed upon in the EL13-006 settlement, including the rate of return methodology², jurisdictional demand allocators, carrying charge, and rate design. Staff agrees with the estimated revenue requirement as it is consistent with the terms of EL13-006 settlement agreement.

2014 TCR RATE

The revised TCR rate is designed to be implemented effective May 1, 2014, as opposed to the Company's requested effective date of April 1, 2014. The rate is calculated based on forecasted sales from May 2014 through December 2014 and reflects the \$0 revenues received through April 2014 under the current TCR rate of \$0.00. The revised TCR rate to be effective May 1, 2014 is \$0.002884. Staff has advised Xcel to file revised attachments reflecting the rate change by Friday, April 11, 2014.

OTHER ISSUES

Reasonableness of Overall Earnings from Regulated Rates

Consistent with the terms of the EL13-006 settlement agreement, the Company will to continue to file, by June 1 of each year, an annual report with the Commission detailing its South Dakota jurisdictional earnings for the preceding calendar year. Staff believes the report is necessary to monitor the Company's earnings and the potential effect of adding the TCR rider to its South Dakota tariff.

Future Review of Hollydale Project Costs

Xcel has petitioned the MN PUC to allow for the withdrawal of its Certificate of Need and Route Permit applications for the Hollydale project. While the Company continues to forecast a need for additional transmission infrastructure in the Hollydale area to maintain system reliability, the Company believes the preferred route to be problematic and additional time is needed to develop better project and route alternatives. The Company intends to resubmit a request for approval with the MN PUC when a specific project is selected. The Company estimates the total cost of the project to be more costly than the initial proposal that they seek to withdraw.

The MN PUC has not acted upon the Company's request at this time. Depending on the outcome of this request and the facilities that may eventually be permitted and constructed, the accounting for costs already incurred for the Hollydale project may change. Under potential accounting treatments, costs could either be expensed or transferred to a new project and capitalized. Due to the uncertainty regarding the future of the project, Staff wishes to reserve the right to review all Hollydale project costs currently included in the SD TCR and all additional costs related to the Hollydale project in future TCR

² The 2014 rate of return is 7.09%, based on the Company's actual capital structure, including short-term debt, actual long-term debt costs as of December 31, 2013, 12-month average short-term debt costs as of December 31, 2013, and the ROE approved by the Commission in Docket EL12-046.

filings to determine whether these costs should or should not be borne by SD ratepayers. In particular, Staff requests the Company file an update on the MN Hollydale proceedings in its next TCR filing, including the status of the MN Certificate of Need and Route Permit applications and any changes to the accounting treatment for the costs incurred for the Hollydale project. Please find attached to this memo, the Company's responses to Staff's data requests regarding the Hollydale project.

RECOMMENDATION

Staff believes the Company's filing is consistent with the settlement approved in Docket EL13-006. Staff recommends the Commission approve the 2014 revenue requirements and revised TCR rate of \$0.002884, with an effective date of May 1, 2014.