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## STAFF MEMORANDUM

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**TO:** COMMISSIONERS AND ADVISORS  
**FROM:** BRITTANY MEHLHAFF, JOSEPH REZAC, & ADAM DE HUECK  
**RE:** EL15-038 - In the Matter of the Petition of Northern States Power Company dba Xcel Energy for Approval of its 2016 Infrastructure Rider Project Eligibility and Factor Update  
**DATE:** December 1, 2015

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### BACKGROUND

On October 1, 2015, the South Dakota Public Utilities Commission (Commission) received a petition from Northern States Power Company dba Xcel Energy (Xcel) for approval of its 2016 Infrastructure Rider Project Eligibility and Factor Update.

Previously, on April 18, 2013, the Commission issued an Order Granting Joint Motion for Approval of Settlement Stipulation; Order Approving Refund Plan in Docket EL12-046. This settlement established an Infrastructure Rider. This initial Infrastructure Rider allowed for the recovery of seven specific major capital additions that were not known and measurable to be included in base rates and changes in 2013 property taxes from the property tax amount included in base rates. In exchange for the rider, Xcel agreed to not file any rate application for an increase in base rates which would go into effect prior to January 1, 2015.

The EL12-046 settlement also required the Company to submit annual compliance filings for Staff's review. It did not require separate Commission action or approval unless Staff believed an issue needed to be addressed by the Commission prior to the new rate going into effect. Accordingly, the Infrastructure Rider adjustment factor was updated effective January 1, 2014.

Then, in Docket EL14-058, Xcel's most recent general rate case, Xcel proposed to roll the costs associated with completed projects from the Infrastructure Rider into base rates. Staff and Xcel's settlement in Docket EL14-058 shifted cost recovery of all Infrastructure Rider projects to base rates with the exception of the Monticello Life Cycle Management/Extended Power Uprate (LCM/EPU) project in order to more easily accommodate possible true-ups and corrections. The settlement refreshed the Infrastructure Rider to include 21 new plant additions that were not yet in-service and did not meet the Commission's standard for a known and measurable adjustment to be included in base rates.

As a part of Xcel's commitment to not file another application to increase base rates, for rates proposed to be in effect before January 1, 2018, the Infrastructure Rider was changed from an annual compliance filing to an annual filing requiring specific Commission approval. The Infrastructure Rider is currently designed to collect revenue requirements after the plant addition has been completed and placed in-

service. The Infrastructure Rider is based on estimated costs of the capital projects subject to annual true-up to their actual costs, in-service dates, and recoveries.

The rate established in Docket EL14-058, \$0.000792 per kWh, was based on the estimated 2015 revenue requirement and forecasted sales for July 1, 2015, through December 31, 2015. The rate was effective July 1, 2015, along with the final base rates as a result of Docket EL14-058.

In this current filing, Xcel requests the Commission's approval of project eligibility for 10 projects identified on Exhibit C to the settlement agreement in Docket EL14-058 that are not already included in the rider and project eligibility of 12 additional projects consistent with SDCL § 49-34A-73. Additionally, Xcel asks for approval of the Infrastructure Rider Tracker Report and true-up for the 2015 revenue requirement, and 2016 Infrastructure rider revenue requirements of approximately \$10.3 million. The Company proposes to revise the Infrastructure Rider Adjustment Factor from the current rate of \$0.000792 per kWh to \$0.004854 per kWh, effective January 1, 2016.

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, the forecasted 2016 revenue requirement, and rate calculation. Upon the conclusion of Staff's review, Staff and Xcel agreed to certain changes discussed in more detail below. On December 1, 2015, Xcel filed revised attachments reflecting the agreed upon changes.

## **2015 TRACKER REPORT**

The Infrastructure Rider rate approved in Docket EL14-058 was based on the estimated 2015 revenue requirements associated with 22 approved projects. In this docket, Staff reviewed the revised 2015 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 Infrastructure Rider rate, comparing actual recoveries to actual costs.

**2015 Plant Additions for New Projects** – Attachment 3 summarizes the tracker activity by month. The Company's filing estimated a 2015 under-collection of \$310,412. As described in the Company's petition, the primary difference in revenue requirements as forecasted in EL14-058 and Xcel's present forecast is the recognition of 2015 revenue requirements for new rider projects initially proposed for eligibility in this current filing.

Since the new projects proposed for 2016 were not approved by the Commission for 2015 recovery, Staff proposed the 2015 revenue requirements associated with projects not previously approved in Docket EL14-058 be removed. Such recovery violates the EL14-058 settlement agreement. Xcel had the opportunity to request inclusion of these projects for 2015 and failed to do so. The Company agreed to

Staff's proposal. Only the revenue requirements associated with projects approved in EL14-058 are included in the 2015 revenue requirement calculation<sup>1</sup>.

**Galloping Mitigation Project** – Xcel's petition proposed removing the Galloping Mitigation project from the Infrastructure Rider as of the end of 2015 and proposed to begin collecting through the Transmission Cost Recovery (TCR) Rider as of the beginning of 2016. In Docket EL15-030, Staff recommended shifting cost recovery of the Galloping Mitigation project back to the Infrastructure Rider as Staff believed the project did not qualify as a "modified transmission facility" under SDCL 49-34A-25.1. Therefore, the 2015 revenue requirements have been recalculated to include the Galloping Mitigation project. Xcel's initial proposal included a portion of the 2015 revenue requirements associated with the Galloping Mitigation project. The revised calculations include all 2015 revenue requirements associated with the Galloping Mitigation project.

**ADIT Pro-rate Method** – As discussed in Staff's memorandum in Docket EL15-030, pursuant to Private Letter Rulings issued by the IRS regarding IRS regulation section 1.167(1), in a forecasted test period, a specific computation must be performed to determine the maximum amount of Accumulated Deferred Income Tax (ADIT) used to reduce rate base. The revised calculations provided by Xcel reflect this calculation in order to avoid incurring a potential normalization violation from the IRS.

Incorporating these changes results in a 2015 under-collection of \$36,236.

## **2016 INFRASTRUCTURE RIDER REVENUE REQUIREMENT**

Xcel's petition proposed a 2016 revenue requirement of \$10,301,127, based on the proposed 2015 under-collection of \$310,412 and the 2016 revenue requirements associated with 43 projects, with 22 of these being new projects<sup>2</sup> not previously approved for recovery in Docket EL14-058.

**Addition of TCR Projects** – As discussed above, the Galloping Mitigation project, initially proposed to be removed, was added back into the Infrastructure Rider. Similarly, the Red Wing-Wabasha 115 kV rebuild was also moved from the TCR to the Infrastructure Rider in accordance with Staff's recommendation in Docket EL15-030. Recovery of the Red Wing-Wabasha project begins in 2016.

**ADIT Pro-rate Method** - Also discussed above, the 2016 revenue requirements include the prorated method of calculating ADIT to remain in compliance with IRS normalization rules.

**SHC2 U2 DCS Controls Replacement project** – During discovery, Xcel notified Staff that the SHC2 U2 DCS Controls Replacement project is now cancelled. Therefore, the revenue requirements associated with this project have been removed.

**MNGP 2016 Regulatory Mandate Project** – During its review, Staff identified one proposed project that should be removed. The MNGP 2016 Regulatory Mandate (w/o 11818545) project described on page 2

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<sup>1</sup> The 2015 revenue requirement includes the revenue requirements associated with two projects that appear to be new (12077207-NSM0953 Galloping Mitigation and 11627836-Midtown 115 kV Line 2), however, these projects are simply separate work orders for projects approved in EL14-058 for 2015 recovery.

<sup>2</sup> See Attachment 9 to Xcel's Petition for project descriptions.

of Attachment 9 to the Company's Petition, creates an account available to address annual emergent regulatory mandated projects. The funds established within the budget with this account may or may not be spent on future projects. Since it is unknown whether regulatory mandated projects will transpire, Staff recommended this project be removed from the revenue requirement. If such projects do emerge, the Company may request cost recovery effective in 2017. Xcel has agreed to Staff's proposal.

The net effect of these changes, including the 2015 under-collection of \$36,236, results in an estimated 2016 revenue requirement of \$10,200,312. This revenue requirement results in an approximate 4.62% increase in retail revenues as compared to the Company's filed estimated 2016 revenue requirement of \$10,301,127 (an approximate 4.67% increase in retail revenues).

### **2016 INFRASTRUCTURE RIDER ADJUSTMENT FACTOR**

The revised Infrastructure Rider rate is designed to be implemented effective January 1, 2016. The revised rate is calculated based on forecasted sales from January 2016 through December 2016. The revised Infrastructure Rider rate based on the revised 2016 revenue requirement of \$10,200,312 is \$0.004806 per kWh. The average residential bill impact<sup>3</sup> of the 2016 Infrastructure Rider is \$3.60 per month, an increase of \$3.01 per month compared to the average residential bill impact of the 2015 Infrastructure Rider of \$0.59 per month.

### **OTHER ISSUES**

**Annual Report on Courtenay Wind Project Performance** – The Company has requested inclusion of the Courtenay Wind Project beginning in 2016. Staff asked several questions regarding this project and it appears the project is similar in both operational and financial aspects to the Borders Wind and Pleasant Valley Wind projects already included in the Infrastructure Rider. Since these projects are being built for economical purposes and not on a need basis, Staff feels it is necessary to review the future performance of the projects to ensure they are a good deal for ratepayers. Staff has the ability to review the projects costs, performance, and any other aspects, and propose alternative treatment or adjustments every year these costs are recovered through the Infrastructure Rider and again before these projects are rolled into base rates in a future rate case. Therefore, Staff requests the Company provide annual informational reports regarding the performance of the Courtenay Wind project in order to provide Staff the information necessary to assess the actual economics of the project. Xcel agrees to provide updates regarding average annual capacity factors, congestion costs, O&M costs, and capital costs, as Xcel has already agreed to provide such reports for the Borders Wind and Pleasant Valley Wind projects.

### **RECOMMENDATION**

Staff recommends the Commission approve the revised Infrastructure Rider Adjustment Factor of \$0.004806 per kWh and tariff sheet effective January 1, 2016.

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<sup>3</sup> This calculation assumes average residential monthly usage of 750 kWh.