STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS

FROM: PATRICK STEFFENSEN, LORENA REICHERT, & KRISTEN EDWARDS

RE: EL16-031 - In the Matter of the Petition of Northern States Power Company dba Xcel Energy for Approval of its 2017 Transmission Cost Recovery Eligibility and Rate Adjustment

DATE: November 30, 2016

BACKGROUND

On September 1, 2016, 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 2017. The filing also requested approval of the 2016 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 MISO[1] 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 eight new transmission projects eligible for inclusion, continuance of

[1] Midcontinent Independent System Operator, Inc.

the “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 Docket EL14-016, the TCR rate was set at $0.002868 beginning on May 1, 2014, for the remainder of 2014, to recover a projected 2014 revenue requirement of $3,941,891. This amount is associated with MISO Schedule 26 expenses and 21 of the 22 transmission projects approved for recovery in Dockets EL12-035 and EL13-006. Per Commission order, all costs related to the Hollydale project were removed due to the Minnesota PUC granting Xcel’s request to withdraw the Hollydale certificate of need and route permit applications.

In Docket EL14-080, the TCR rate was set at $0.002417, effective January 1, 2015, to recover a projected 2015 revenue requirement of $4,949,726 associated with 15 transmission projects and MISO Schedule 26 expenses. This number was comprised of the 21 projects which made up the 2014 revenue requirement less the five projects incorporated into base rates in rate case docket EL14-058 and the Meadow Lake project which was removed due to the Minnesota PUC granting Xcel’s request to withdraw the Hollydale certificate of need and route permit applications. The Company did not seek eligibility determinations of any new projects in Docket EL14-080.

In Docket EL15-030, the TCR rate was set at $0.002688, effective January 1, 2016, to recover a projected 2016 revenue requirement of $5,705,060 associated with 16 transmission projects and MISO Schedule 26 expenses. This number included the 15 projects included in the 2015 revenue requirement plus the new Minot Load Serving Transmission Line project. Two proposed projects, the Red Wing to Wabasha Rebuild and Galloping Mitigation Near Nobles County Substation projects, were not allowed recovery in the TCR, as neither were deemed to be a line modification.

In this filing, Xcel requests to recover a projected 2017 revenue requirement of $8,008,973 associated with the 16 previously approved transmission projects and MISO Schedule 26 expenses. Xcel does not propose to include any new projects for 2017. The proposed 2017 revenue requirement results in a rate of $0.003797 per kWh, calculated based on a January 1, 2017 effective date.

STAFF ANALYSIS

The revised attachments, filed on November 29, 2016, reflect modifications Xcel has agreed to make to correct the following issues found during Staff’s review of the model:

Maple River to Red River Project Removal

The Maple River to Red River project has seen a material change to its plans since Xcel’s last TCR filing was made in EL15-030. The route of this project has been revised from exiting the Maple River Substation to the east to now exiting the substation to the south to avoid substantial City of Fargo public utilities and a drainage ditch. This move will improve reliability and allow Xcel to utilize existing Right of Way land rights.

As a result of the change to the route, this project no longer meets the “five miles in length” requirement in SDCL 49-34A-25.1 and no longer qualifies for cost recovery in the TCR. Thus, Xcel has agreed to remove this project from the TCR tracker. This revision decreases the 2017 revenue requirement by $91,282.

MISO-Determined Company Responsibility Revision

Xcel’s 2017 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.

The Staff Memorandum filed in Docket EL13-006 provides a complete discussion on the methodology applied to each project type. As indicated in this memo, the Type 3 projects employ a “refined split method” where only Xcel’s MISO-determined retail responsibility for its own investment is placed into the TCR rate base.

During Staff’s review, it was discovered Xcel was incorrectly using the 2015 MISO-determined responsibility percentage for these Type 3 projects for the 2016 calendar year. Xcel has agreed to make this revision to their model, decreasing the 2017 revenue requirement by $57,559.

MISO Transmission Owners Return on Equity Complaint

In November 2013, a group of industrial customers in the MISO region filed a complaint asking FERC to reduce the 12.38 percent return on equity (ROE) used in the transmission formula rates of jurisdictional MISO transmission owners, including Xcel, to 9.15 percent.

On September 28, 2016, FERC ruled that the base ROE currently approved for most transmission-owning members of MISO is unjust and unreasonable and should be reduced to 10.32 percent, effective immediately. In addition, FERC has approved a 50 basis point ROE adder for RTO membership, effective January 6, 2015. MISO and its transmission owners were also ordered to return any excess revenues they collected, plus interest, for the 15-month period extending from November 12, 2013 through February 11, 2015.

Xcel has noted the prior period refund calculations will be highly complex and time consuming given the number of transmission owners, the different revenue requirement methodologies, the various effective dates of individual transmission owners’ refund obligations and commitments, and the number of rate schedules that are affected by this new base ROE. Given this complexity, on October 21, 2016, MISO and the MISO transmission owners, including Xcel, filed a request for an extension with FERC that defers the implementation of any refunds in this proceeding until July 28, 2017.

Considering the complexity of the refund calculation and the uncertainty of estimating the amount and timing of the refund, it will be included with carrying charge in a future TCR filing once the amount is known. However, this filing has been revised to capture the reduced ROE in the RECB expense and revenue forecasts starting in October 2016. This revision decreases the 2017 revenue requirement by $208,128.

Property Tax Removal

As stated in the petition, Xcel is proposing to remove property taxes from the TCR and start including this amount in the Fuel Clause Adjustment (FCA), effective January 1, 2017. As stipulated in Xcel's last rate case (EL14-058), Xcel would collect through the monthly FCA the incremental property tax amount above the level included in base rates that are not already collected through other riders. Moving this recovery from the TCR to the FCA will help ensure there is no double-recovery of these incremental property taxes. Staff agrees with this proposal.

2016 TRACKER REPORT

The rate approved in Docket EL15-030 was based on the balance in the tracker account and the 2016 estimated revenue requirements. In this docket, Staff reviewed the revised 2016 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.

Revised Attachment 6 summarizes the tracker activity by month for 2016. Individual project detail for the projects is found on Revised Attachment 12.

2017 TCR REVENUE REQUIREMENT

The revised total estimated 2017 revenue requirement of $7,652,004, subject to later true-up to actual costs and recoveries, is based on the 2016 under-collection in the tracker account and the estimated 2017 revenue requirement associated with the 16 transmission projects and MISO Schedule 26 expenses.

The 2017 revenue requirement continues to apply the other provisions agreed upon in the EL13-006 settlement, including the jurisdictional demand allocators, carrying charge, and rate design. Additionally, the Company will continue to employ the same rate of return method with a true up of the 2017 rider balance calculations to reflect the cost of debt and capital structure at December 31, 2016 levels and use of the return on equity approved in its most recent rate case, Docket EL14-058.

2017 TCR RATE

The revised TCR rate is designed to be implemented effective January 1, 2017. The revised rate is calculated based on forecasted sales from January 2017 through December 2017. The revised TCR rate upon making the changes as described above, effective January 1, 2017, is $0.003627 per kWh.

Reasonableness of Overall Earnings from Regulated Rates

Consistent with the terms of the EL13-006 settlement agreement, the Company will 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.

RECOMMENDATION

Staff's recommendation is based on its analysis of Xcel's filing, discovery information, relevant statutes, and previous Commission orders. Staff's review consisted of, but not limited to, the 2016 tracker report, the forecasted 2017 revenue requirement, and rate calculation.

Staff believes the Company's filing is consistent with the settlement approved in Docket EL13-006 and consistent with prior TCR filings. Staff recommends the Commission approve the revised 2017 revenue requirements and revised TCR rate of $0.003627 per kWh, with an effective date of January 1, 2017.