
STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS
FROM: PATRICK STEFFENSEN, LORENA REICHERT, & KRISTEN EDWARDS
RE: EL17-036 - In the Matter of the Petition of Northern States Power Company dba Xcel Energy for Approval of its 2018 Transmission Cost Recovery Eligibility and Rate Adjustment
DATE: November 15, 2017

BACKGROUND

On September 1, 2017, 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 2018. The filing also requested approval of the 2017 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 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 Docket EL16-031, the TCR rate was set at \$0.003627, effective January 1, 2017, to recover a projected 2017 revenue requirement of \$7,652,004 associated with 15 transmission projects and MISO Schedule 26 expenses. This number was comprised of the 16 projects which made up the 2016 revenue requirement less the Maple River to Red River project which was removed due to the change to the route which made it less than five miles in length and no longer eligible for TCR recovery. The Company did not seek eligibility determinations of any new projects in Docket EL16-031.

In this filing, Xcel requests to recover a projected 2018 revenue requirement of \$6,718,790 associated with the 15 previously approved transmission projects and MISO Schedule 26 expenses. Xcel does not propose to include any new projects for 2018. The proposed 2018 revenue requirement results in a rate of \$0.003175 per kWh, calculated based on a January 1, 2018 effective date.

STAFF ANALYSIS

The revised attachments, filed on November 3, 2017, reflect modifications Xcel has agreed to make to correct the following issues found during Staff’s review of the model:

Capital Structure Revision

Xcel's 2018 TCR continues to apply the provisions set forth in the Settlement Stipulation approved in Docket EL12-035. This includes the use of the Company's actual capital structure as of the end of the preceding calendar year.

During Staff's review, it was discovered Xcel had incorrectly updated the 2016, 2017, and 2018 capital structures in a manner that was inconsistent with past filings. Xcel has agreed to make this revision to their model, decreasing the 2018 revenue requirement by \$72,302.

Wilmarth to Carver County Project Removal

The Wilmarth to Carver County project has seen a further delay to its plans since Xcel's last TCR filing was made in EL16-031. The projected in-service date of the project has been revised from May 2019 to March 2022. This further project delay of three years causes concern as its construction start has now been delayed several years beyond the original forecast. Thus, Xcel has agreed to remove this project from the TCR at this time and put it back in the rider once construction begins. This revision decreases the 2018 revenue requirement by \$1,195.

Sioux Falls Northern's Lawrence to Falls Project Removal

The Sioux Falls Northern project has seen a material change to its plans since Xcel's last TCR filing was made in EL16-031, adding back a segment from the Lawrence substation to the Falls substation. As the new segment will be added after the rest of the project is already in service, Staff believes this segment would be a separate project. This new project does not meet the "five miles in length" requirement in SDCL 49-34A-25.1 and does not qualify for cost recovery in the TCR. Thus, Xcel has agreed to remove this segment from the TCR. This revision decreases the 2018 revenue requirement by \$17,670.

2017 TRACKER REPORT

The rate approved in Docket EL16-031 was based on the balance in the tracker account and the 2017 estimated revenue requirements. In this docket, Staff reviewed the revised 2017 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.

Updated Attachment 6 summarizes the tracker activity by month for 2017. Individual project detail for the projects is found on Updated Attachment 12.

2018 TCR REVENUE REQUIREMENT

The updated total estimated 2018 revenue requirement of \$6,627,623, subject to later true-up to actual costs and recoveries, is based on the 2017 over-collection in the tracker account and the estimated 2018 revenue requirement associated with the 14 transmission projects and MISO Schedule 26 expenses.

The 2018 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 2018 rider balance calculations to reflect the cost of debt and capital structure at December 31, 2017 levels and use of the return on equity approved in its most recent rate case, Docket EL14-058.

2018 TCR RATE

The updated TCR rate is designed to be implemented effective January 1, 2018. The updated rate is calculated based on forecasted sales from January 2018 through December 2018. The updated TCR rate upon making the changes as described above, effective January 1, 2018, is \$0.003131 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 2017 tracker report, the forecasted 2018 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 updated 2018 revenue requirements and updated TCR rate of \$0.003131 per kWh, with an effective date of January 1, 2018.