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## STAFF MEMORANDUM

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**TO:** COMMISSIONERS AND ADVISORS  
**FROM:** ERIC PAULSON, JOSEPH REZAC, & AMANDA REISS  
**RE:** EL17-039 - In the Matter of the Petition of Northern States Power Company dba Xcel Energy for Approval of its 2018 Infrastructure Rider Project Eligibility and Factor Update  
**DATE:** December 12, 2017

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### BACKGROUND

On September 29, 2017, the South Dakota Public Utilities Commission (Commission) received a petition from Northern States Power Company dba Xcel Energy (Xcel) for approval of its 2018 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.

Xcel filed its first annual Infrastructure Rider filing pursuant to the EL14-058 settlement on October 1, 2015 (Docket EL15-038). The Commission issued an Order Approving 2016 Infrastructure Rider Project Eligibility and Factor Update on December 11, 2015. The rate established in Docket EL15-038, \$0.004806 per kWh, was based on the estimated 2016 revenue requirement of \$10,200,312 and forecasted sales for January 1, 2016, through December 31, 2016. The rate was effective January 1, 2016.

In EL16-032, Xcel requested the Commission's approval of project eligibility for 2 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 5 additional projects consistent with SDCL § 49-34A-73. The rate established, \$0.005332 per kWh, was based on the estimated 2017 revenue requirement of approximately \$11.2 million and forecasted sales for January 1, 2017, through December 31, 2017. The rate was effective January 1, 2017.

In this current filing, Xcel requests the Commission's approval of project eligibility for 3 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 5 additional projects consistent with SDCL § 49-34A-73. Additionally, Xcel asks for approval of the Infrastructure Rider Tracker Report and true-up for the 2017 revenue requirement, and 2018 Infrastructure rider revenue requirements of approximately \$11.4 million. The Company proposes to revise the Infrastructure Rider Adjustment Factor from the current rate of \$0.005332 per kWh to \$0.005367 per kWh, effective January 1, 2018.

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 2018 revenue requirement, and rate calculation.

## **2017 TRACKER REPORT**

The Infrastructure Rider rate approved in Docket EL16-032 was based on the estimated 2017 revenue requirements associated with 51 approved projects. In this docket, Staff reviewed the filed 2017 revenue requirement of \$10,458,946 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.

Attachment 3 summarizes the tracker activity by month. The Company's current filing estimates a 2017 over-collection of \$764,821. As described in the Company's petition, the forecast for projects in the 2017 Infrastructure Rider is approximately \$789,198 less at this time compared to the originally approved 2017 level.

Staff found no issues with the Company's 2017 tracker report.

## **2018 INFRASTRUCTURE RIDER REVENUE REQUIREMENT**

Xcel's petition originally proposed a 2018 revenue requirement of \$11,358,879, based on the proposed 2017 over-collection of \$764,821 and the 2017 revenue requirements associated with 59 projects, with 8 of these being new projects<sup>1</sup> not previously approved for recovery in Dockets EL14-058, EL15-038, and EL16-032. This revenue requirement results in an approximate 0.03% increase in retail revenues. Staff found one issue with the new projects proposed for recovery and the estimated 2018 revenue requirement.

One of the projects that Xcel requested recovery of in this infrastructure rider docket was BDSOC Black Dog U6 Simple Cycl (Black Dog Unit 6). The new Black Dog Unit 6 generation unit was analyzed in a portfolio of projects in the 2011 – 2025 IRP that selected Black Dog Unit 6, the Calpine Mankato Combined Cycle PPA, and the Geronimo Aurora Solar PPA as resource additions. The Commission reviewed the Geronimo Aurora Solar PPA in Docket EL16-037, the Fuel Clause Rider suspension docket. Staff's same general concerns expressed in Docket EL16-037 regarding the capacity need associated with the Aurora Solar project applies to Black Dog Unit 6 and the Calpine Mankato Combined Cycle PPA. Staff and Xcel agreed to remove Black Dog Unit 6 from this filing, and Staff anticipates this resource will be evaluated for cost recovery during the Company's next general rate case filing.

With the removal of Black Dog Unit 6, Xcel made a revised filing reflecting the removal in the revenue requirement. The revised petition proposed a 2018 revenue requirement of \$10,965,984, based on the proposed 2017 over-collection of \$764,821 and the 2017 revenue requirements associated with 58 projects, with 7 of these being new projects<sup>2</sup> not previously approved for recovery in Dockets EL14-058, EL15-038, and EL16-032. This revenue requirement results in an approximate 0.12% decrease in retail revenues.

## **2018 INFRASTRUCTURE RIDER ADJUSTMENT FACTOR**

The revised Infrastructure Rider rate is designed to be implemented effective January 1, 2018. The revised rate, as filed on 11/29/17, is calculated based on forecasted sales from January 2018 through December 2018. The Infrastructure Rider rate based on the estimated 2018 revenue requirement of \$10,965,984 is \$0.005181 per kWh. The average residential bill impact<sup>3</sup> of the 2018 Infrastructure Rider is \$3.89 per month, a decrease of \$0.11 per month compared to the average residential bill impact of the 2017 Infrastructure Rider of \$4.00 per month.

## **OTHER ISSUES**

**Annual Report on Wind Projects Performance** – In Docket EL14-058, the Company agreed to report information related to capital costs, operating costs, and plant performance for the Pleasant Valley and Borders Wind projects once completed and in-service, so that Staff may assess the actual economics of the projects. Subsequently, in Docket EL15-038, Xcel agreed to provide the same information for the Courtenay Wind project. Pleasant Valley and Borders Wind both became in-service in late 2015 and

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<sup>1</sup> See Attachment 9 to Xcel's Petition for project descriptions.

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

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

EL16-032 was the first time the Company has provided the report. Courtenay Wind was placed in-service in December 2016 and is included in the report in this docket.

Pleasant Valley has an operating capacity of 200 MW and has a total capital cost to build the facility, including transmission, but excluding AFUDC, of \$333.1 million through 2016. The actual costs were below the original forecasted costs of \$342.9 million. For 2016, Pleasant Valley produced 803,471,749 kWh of gross energy and had a net production of 802,870,055 kWh, had 692,688 kWh in total curtailment, and an average annual capacity factor of 45.7%.

Borders Wind has an operating capacity of 150 MW and has a total capital cost to build the facility, including transmission, but excluding AFUDC, of \$261.3 million through 2016. The actual costs were below the original forecasted costs of \$261.8 million. For 2016, Border Wind produced 622,904,187 kWh of gross energy and had a net production of 622,225,798 kWh, had 898,208 kWh in total curtailment, and an average annual capacity factor of 47.2%.

Courtenay Wind has an operating capacity of 200 MW and has a total capital cost to build the facility, including transmission, but excluding AFUDC, of \$286.0 million through 2016. The actual costs were below the original forecasted costs of \$300 million. For December of 2016, the only month in-service in 2016, Courtenay Wind produced 86,413,788 kWh of gross energy and had a net production of 86,382,029 kWh, had 0 kWh in total curtailment, and a capacity factor of 58.1%.

## **RECOMMENDATION**

Staff recommends the Commission approve the revised Infrastructure Rider Adjustment Factor, as filed on 11/29/17, of \$0.005181 per kWh and tariff sheet effective January 1, 2018.