
STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS
FROM: BRITTANY MEHLHAFF, PATRICK STEFFENSEN, AND KAREN CREMER
RE: EL12-046 - In the Matter of the Application of Northern States Power Company dba Xcel Energy for Authority to Increase its Electric Rates: Infrastructure Rider Compliance Filing
DATE: November 27, 2013

Commission Staff (Staff) submits this Memorandum regarding its concerns about Northern States Power Company dba Xcel Energy's (Xcel or Company) compliance filing in the above-captioned matter.

BACKGROUND

On June 29, 2012, the Company filed an application with the South Dakota Public Utilities Commission (Commission) seeking an increase in annual base rate revenues of approximately \$19,368,000 or a 11.53 percent increase in retail revenue for electric service to customers in its South Dakota retail service territory.

On March 15, 2013, Staff filed a Joint Motion for Approval of Settlement Stipulation, Settlement Stipulation, and Staff Memorandum Supporting Settlement Stipulation. On April 18, 2013, the Commission issued an Order Granting Joint Motion for Approval of Settlement Stipulation; Order Approving Refund Plan. By approving the Settlement, the Commission approved a base rate increase of \$11,570,000 and the establishment of an Infrastructure Rider, with estimated 2013 revenue requirements of \$3,714,485. When the base rate increase is combined with the Infrastructure Rider, the estimated 2013 overall revenue increase was \$15,284,485, justifying an approximate 9.06% increase in retail revenues. In 2014, estimated retail revenues would increase by an additional \$2,648,296 or approximately 1.44% through the Infrastructure Rider.

The Infrastructure Rider allows 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. The rider is designed to collect revenue requirements after the plant addition has been completed and placed in-service. The initial rate was based on estimated costs of the seven capital projects subject to later true-up to their actual costs, in-service dates, and recoveries. The Infrastructure Rider also allows for the true-up to actual 2013 property taxes.

Anticipated sales growth was not likely to offset the revenue deficiency related to these projects and without the rider, Xcel would have likely filed another rate case in 2013. 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.

COMPLIANCE FILING AND UPDATE

On October 1, 2013, Xcel filed its Infrastructure Rider Annual Compliance filing and Update. Staff reviewed the filing and submitted a data request to the Company. The Settlement Stipulation states, "No separate Commission action or approval is required to implement the [Infrastructure Rider] or the updates to the Rider. Staff reserves the right to review the rider filings for cost prudence." Staff brings this item to the Commission as its review has highlighted some concerns Staff believes need to be addressed by the Commission prior to the new rate going into effect on January 1, 2014.

In its compliance filing, Xcel proposes to recover \$8.74 million for the 2014 calendar year, including a projected 2013 unrecovered balance of \$842,210. The total of the Infrastructure costs and tracker balance results in an average bill impact of \$3.25 per month for a typical residential electric customers using 750 kWh per month. This is an increase of \$1.88 per month from the current Infrastructure Rider recovery. Xcel proposes to implement a rate of \$0.004338 per kWh applied to all energy billed to each customer class beginning January 1, 2014, through December 31, 2014. This represents an increase of \$0.002508 from the existing rate of \$0.001830 per kWh.

Xcel's filing outlines the revenue requirement and rate calculations and briefly describes the differences in the revenue requirements compared to the revenue requirements estimated in the approved settlement. Upon review of the compliance filing, Staff was concerned with \$2,346,371¹ difference between the 2013-2014 revenue requirements included in this update as compared to the revenue requirements contemplated in the settlement. Staff identified two areas contributing to this significant increase: 1) a change in allocation factors and 2) increased project costs. Each of these items is discussed in more detail below.

Jurisdictional Allocation Factors

The Company's compliance filing utilizes forecast 2013 and 2014 jurisdictional allocation factors. This results in approximately 5.2% of total production costs being allocated to South Dakota. However, the Settlement approved by the Commission did not include a provision for updating the allocation factors in the Infrastructure Rider. Staff believes the jurisdictional allocation factors to be used for purposes of this Infrastructure Rider update and all future updates should be the jurisdictional allocation factors approved in the Settlement in EL12-046.

Staff submitted a data request to the Company, seeking additional explanation of the change in allocation factors. The Company's response is included in Attachment 2² to this memorandum. Xcel states "It is important to match the costs with the allocation factors applicable to the time period the rider is in effect. It would be inappropriate to have a period for peak usage that is different from the energy usage period that is used to set the rate." While the Company's argument has merit, the Company should have made this argument and suggested updating the allocation factors prior to

¹ Refer to Xcel's Compliance Filing and Update, Attachment 3

² The Company's response to Staff's Infrastructure Rider Compliance Filing and Update Data Request 1-1 regarding jurisdictional allocation factors is found on pages 3 and 4 of Attachment 2.

Settlement and determination of the initial rider rate. If they had done so, the initial Infrastructure Rider rate would have been calculated based on a 2013 forecasted allocation factor and the shortfall Xcel has calculated for 2013 would have been considerably less. It is not fair for customers to pay a carrying charge on an “under-recovered” balance when this balance would have been much less if the initial rate was determined based on a 2013 forecasted allocator instead of the allocator approved in the rate case. To allow Xcel to collect now what should have been collected earlier is retroactive ratemaking, not a true-up.

Furthermore, the Infrastructure Rider was an alternative to including these projects in base rates because they were not yet in-service and the costs were not known and measurable. The Company had requested these projects be included in base rates. If these projects had been included in base rates, they would have been allocated to South Dakota using the allocators agreed to in the Settlement.

Staff has calculated the revenue requirement impact of the updated allocation factors. Changing the allocation factors to the factors agreed to in the Settlement reduces the Company’s proposed 2014 revenue requirement to approximately \$7.29 million, including a projected 2013 unrecovered balance of \$308,002. This change reduces the \$2,346,371 difference between the 2013-2014 revenue requirements included in the update as compared to the revenue requirements estimated in the settlement to \$896,919. Thus, approximately \$1.4 million of the difference is due to changing the allocation factors. Refer to Attachment 1 to this memorandum for the supporting calculations.

The South Dakota production demand allocator approved in the Settlement and utilized for determining the initial Infrastructure Rider rate is 4.8364%. The Company’s proposed South Dakota production demand allocators for 2013 and 2014 are 5.0943% and 5.2435%, respectively. The significant increase in the South Dakota production demand allocator should be reviewed in the Company’s next rate case, at the same time all other allocation factors are reviewed.

Project Costs

Staff is also concerned with the increased costs associated with certain projects. Staff submitted questions³ to the Company in an effort to obtain additional information regarding project costs, in-service dates, and additional project scope. At the time of this writing, Staff has not received the responses to data requests 1-3 through 1-7. Staff requests the Company file the remaining responses in the docket as soon as possible, prior to the Commission Meeting on December 3, 2013.

RECOMMENDATION

Staff makes the following recommendations to and requests of the Commission:

1. Staff recommends the Commission deny Xcel’s proposal to implement a rate of \$0.004338 on January 1, 2014.

³ Refer to Attachment 2 for Staff’s data request and the Company’s responses to questions 1-1 and 1-2.

2. Staff recommends the Commission find that the jurisdictional allocator to be used for purposes of this Infrastructure Rider update and all future updates be the jurisdictional allocation factor of 4.8364% approved in the Settlement in EL12-046.
3. Staff recommends the Commission review the updated project costs and determine if the cost overruns were prudent.
4. If the Commission desires more time to review the issues raised in this memorandum, Staff recommends the Commission issue an order determining that the rate implemented on January 1, 2014, is subject to true-up and further update upon Commission action.