
STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS
FROM: PATRICK STEFFENSEN, ERIC PAULSON, & KRISTEN EDWARDS
RE: EL14-080 - In the Matter of the Petition of Northern States Power Company dba Xcel Energy for Approval of its 2015 Transmission Cost Recovery Eligibility and Rate Adjustment
DATE: December 2, 2014

BACKGROUND

On August 29, 2014, 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 2015. The filing also requested approval of the 2014 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 this filing, Xcel requests to recover a projected 2015 revenue requirement of \$4,965,906 associated with 15 transmission projects and MISO Schedule 26 expenses. This number is comprised of the 21 projects which made up the 2014 revenue requirement less the six projects proposed to be incorporated into base rates in the pending rate case, Docket EL14-058. The proposed 2015 revenue requirement results in a rate of \$0.002425 per kWh, calculated based on a January 1, 2015 effective date. The Company does not seek eligibility determinations of any new projects in Docket EL14-080.

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 and the forecasted 2015 revenue requirement and rate calculation.

2014 TRACKER REPORT

The rate approved in Docket EL14-016 was based on the balance in the tracker account and the 2014 estimated revenue requirements. In this docket, Staff reviewed the revised 2014 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.

Attachment 6 summarizes the tracker activity by month for 2014. Individual project detail for the projects is found on Attachment 14.

During discovery, Staff found an issue with the past revenue requirements associated with the Meadow Lake project. This project is now on hold due to the Hollydale project being put on hold during regulatory discussions. Even though Xcel eliminated future revenue requirement for the Meadow Lake project, Staff feels to remain consistent with the Commission’s decision regarding Hollydale, the tracker should be updated to eliminate past costs associated with the Meadow Lake project. This change increases the \$256,483 over-collection initially reported in the Company’s 2014 tracker report to \$272,663, an increase of \$16,180.

2015 TCR REVENUE REQUIREMENT

The revised total estimated 2015 revenue requirement of \$4,949,726, subject to later true-up to actual costs and recoveries, is based on the 2014 over-collection in the tracker account after the removal of past Meadow Lake costs and the estimated 2015 revenue requirement associated with the 15

transmission projects and MISO Schedule 26 and 26A expenses. Since the Company did not request cost recovery for any additional transmission projects, Staff's review consisted of verifying the estimated revenue requirement calculation, and the only change Staff made to the filed 2015 revenue requirement was the change to the 2014 over-collection.

Xcel's 2015 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.

For a complete discussion on the methodology applied to each project type and the projects included in Xcel's TCR, please refer to Staff's memorandum filed in Docket EL13-006.

The 2015 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. However, the Company does agree in its next TCR filing to true-up the 2015 rider balance calculations to reflect 1) the cost of debt and capital structure at December 31, 2014 levels and 2) return on equity determined in its pending rate case, Docket EL14-058.

2015 TCR RATE

The revised TCR rate is designed to be implemented effective January 1, 2015. The revised rate is calculated based on forecasted sales from January 2015 through December 2015. The revised TCR rate upon removal of past costs associated with the Meadow Lake project, effective January 1, 2015, is \$0.002417.

OTHER ISSUE

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 believes the Company's filing is consistent with the settlement approved in Docket EL13-006. Staff recommends the Commission approve the revised 2015 revenue requirements and revised TCR rate of \$0.002417, with an effective date of January 1, 2015.