
STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS
FROM: PATRICK STEFFENSEN AND KRISTEN EDWARDS
RE: EL18-036 - In the Matter of the Petition of Northern States Power Company dba Xcel Energy for Approval of its 2019 Transmission Cost Recovery Eligibility and Rate Adjustment
DATE: December 5, 2018

BACKGROUND

On August 31, 2018, 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 2019. The filing also requested approval of the 2018 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 subsequent years, the Commission approved recovery of additional projects and expenses.

Most recently, in Docket EL17-036, the Commission approved TCR recovery of the 2018 revenue requirement associated with 14 previously approved transmission projects and MISO Schedule 26 expenses. In this docket, Xcel proposes to include one new project for 2019. The proposed 2019 revenue

¹ Midcontinent Independent System Operator, Inc.

requirement results in a rate of \$0.003037 per kWh, calculated based on a January 1, 2019 effective date.

STAFF ANALYSIS

Huntley-Wilmarth 345 kV Transmission Line

Xcel's petition seeks approval of one new transmission project. This project is an approximate 50-mile 345 kV transmission line between Xcel's existing Wilmarth substation and an ITC Midwest-owned Huntley substation. Xcel's project costs will include modifications to the existing Wilmarth substation and half the costs related to the transmission line.

Xcel has stated in its petition that this project was vetted by the MISO Board of Directors as a Market Efficiency Project (MEP) in its annual Transmission Expansion Plan (MTEP16) report and will reduce transmission system congestion, improve the efficiency of MISO's energy market, and lower wholesale energy costs. The project will also strengthen the resiliency of the regional grid, improve the deliverability of wind-generated energy, and create a more robust regional transmission system. Furthermore, Xcel's response to DR 1-4 shows that each of the MTEP models from MTEP16 to the most recent MTEP18 show a benefit-to-cost ratio above the 1.0 breakeven ratio.

Staff would also note that the exact route of the Huntley-Wilmarth line will not be known during the review of this docket; however, Xcel has provided a map of the various route alternatives as Attachment 18 to its filing. Xcel's response to DR 1-5 shows the reasons for the variability in total project cost given the route that is ultimately chosen. Once a route is selected, Xcel will actively manage the project to mitigate risks to stay within project budgets, and the South Dakota Commission will continue to have the ability to review the prudence of the costs eligible for TCR recovery.

2018 TRACKER REPORT

The rate approved in Docket EL17-036 was based on the balance in the tracker account and the 2018 estimated revenue requirements. In this docket, Staff reviewed the revised 2018 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 2018. Individual project detail for the projects is found on Attachment 12.

2019 TCR REVENUE REQUIREMENT

The total estimated 2019 revenue requirement of \$6,454,892, subject to later true-up to actual costs and recoveries, is based on the 2018 over-collection in the tracker account and the estimated 2019 revenue requirement associated with the 15 transmission projects and MISO Schedule 26 expenses.

The 2019 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 2019 rider balance calculations to reflect the cost of debt and capital structure at December 31, 2018 levels and use of the return on equity approved in its most recent rate case, Docket EL14-058.

2019 TCR RATE

The TCR rate is designed to be implemented effective January 1, 2019. The rate is calculated based on forecasted sales from January 2019 through December 2019. The TCR rate, effective January 1, 2019, is \$0.003037 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 2018 tracker report, the forecasted 2019 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 2019 revenue requirements and TCR rate of \$0.003037 per kWh, with an effective date of January 1, 2019.