STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS

FROM: ERIC PAULSON AND AMANDA REISS

RE: EL18-040 - In the Matter of the Petition of Northern States Power Company dba Xcel Energy for Approval of its 2019 Infrastructure Rider Project Eligibility and Factor Update

DATE: December 5, 2018

BACKGROUND

On October 1, 2018, the South Dakota Public Utilities Commission (Commission) received a petition from Northern States Power Company dba Xcel Energy (Xcel) for approval of its 2019 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 EL17-039, Xcel requested 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. The rate established, .005181 per kWh, was based on the estimated 2018 revenue requirement of approximately $11.4 million and forecasted sales for January 1, 2018, through December 31, 2018. The rate was effective January 1, 2018.

In this current filing, Xcel requests the Commission's approval of project eligibility for 1 project identified on Exhibit C to the settlement agreement in Docket EL14-058 that is not already included in the rider and project eligibility of 6 additional projects consistent with the Settlement Stipulation in GE17-003 and SDCL § 49-34A-73. Additionally, Xcel asks for approval of the Infrastructure Rider Tracker Report and true-up for the 2018 revenue requirement, and 2019 Infrastructure rider revenue requirements of approximately $14.6 million. The Company proposes to revise the Infrastructure Rider Adjustment Factor from the current rate of $0.005181 per kWh to $0.006853 per kWh, effective January 1, 2019.

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 2019 revenue requirement, and rate calculation.

2018 TRACKER REPORT

The Infrastructure Rider rate approved in Docket EL17-039 was based on the estimated 2018 revenue requirements associated with 59 approved projects. In this docket, Staff reviewed the filed 2018 revenue requirement of $10,072,345 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 2018 over-collection of $1,067,709. As described in the Company's petition, the forecast for projects in the

2018 Infrastructure Rider is approximately $893,638 less at this time compared to the originally approved 2018 level.

Staff found no issues with the Company's 2018 tracker report.

2018 INFRASTRUCTURE RIDER REVENUE REQUIREMENT

Xcel's petition proposed a 2019 revenue requirement of $14,652,820, based on the proposed 2018 over-collection of $1,067,709 and the 2018 revenue requirements associated with 66 projects, with 7 of these being new projects[1] not previously approved for recovery in Dockets EL14-058, EL15-038, EL16-032, and EL17-039. This revenue requirement results in an approximate 1.74% increase in retail revenues.

2018 INFRASTRUCTURE RIDER ADJUSTMENT FACTOR

The Infrastructure Rider 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 Infrastructure Rider rate based on the estimated 2019 revenue requirement of $14,652,820 is $0.006853 per kWh. The average residential bill impact[2] of the 2019 Infrastructure Rider is $5.14 per month, an increase of $1.25 per month compared to the average residential bill impact of the 2018 Infrastructure Rider of $3.89 per month.

Biomass PPA removal – In the settlement for Xcel docket GE17-003, the Company was allowed to seek recovery of costs related to the terminating of certain biomass power purchase agreements in the infrastructure rider. Xcel has also asked for and received deferred accounting for the biomass costs in docket EL18-027. Xcel has proposed to seek recovery of costs related to 2 biomass projects. The Pine Bend termination costs are included with the Laurentian Biomass termination costs and only counted as one project in this filing.

As noted in response to DR2-15, see attached response, the Benson Plant was commercially operational from September 2007 through June 2018, the Laurentian Plant was commercially operational from January 2007 through July 2018, and the Pine Bend Plant was commercially operational from March of 1996 through June of 2018. And as such, Xcel has been recovering costs related to the PPA's of each project during those time periods through the fuel clause adjustment.

Attachment 9A, page 2, provides charts showing the costs of the current contracts compared to the costs of the revised contracts and the savings of the new contracts. As shown in the bottom chart, the retirement of the three biomass projects results in a nominal savings of $31.0 million at the South Dakota level and a net present value savings of $22.3 million at the South Dakota level with the retirement of these biomass PPA's.

Given the uncertainty of the next Xcel rate case filing and the rate moratorium established in GE17-003, which Xcel is not allowed to file for a rate case effective prior to January 1, 2021, Staff feels it is in the

[1] See Attachment 9 to Xcel's Petition for project descriptions.
[2] This calculation assumes average residential monthly usage of 750 kWh.

interest of the customers to start the recovery of the biomass projects now to spread the time of recovery out over a longer period of time to help mitigate any potential rate increase after the moratorium has expired and a new rate case filed. Starting the recovery now will also reduce the interest earned on the deferred accounting treatment that was allowed in EL18-027.

New wind projects – Also in the settlement for Xcel docket GE17-003, the Company was allowed to seek recovery of new wind projects in the infrastructure rider. Xcel has proposed to seek recovery of costs related to 4 wind farms. Three of the wind farms will be new construction and one is a repowering of an existing wind farm.

The Company has requested inclusion of the Blazing Star I Wind Farm, Foxtail Wind Farm, Crowned Ridge BOT Wind Farm, and Lake Benton BOT Wind Farm repowering beginning in 2019. Staff asked several questions regarding these projects and it appears the projects are similar in both operational and financial aspects to the Borders Wind, Pleasant Valley Wind, and Courtenay Wind projects already included in the Infrastructure Rider. The one unique aspect of the Lake Benton BOT Wind Farm is it is a repowering of a wind farm currently under PPA with Xcel and will be repowered and then purchased by Xcel, therefore not requiring a PPA after purchase.

Since these projects are being built for economic purposes and not on a need basis, Staff feels it is necessary to review the future performance of the projects to ensure they are beneficial for ratepayers. Staff has the ability to review the projects' costs, performance, and any other aspects, and propose alternative treatment or adjustments every year these costs are recovered through the Infrastructure Rider and again before these projects are rolled into base rates in a future rate case.

As noted in the table below, the wind farms provide for low cost energy for Xcel ratepayers,

CONFIDENTIAL DATA BEGINS

CONFIDENTIAL DATA ENDS

Therefore, Staff requests the Company provide annual informational reports regarding the performance of the Blazing Star I Wind Farm, Foxtail Wind Farm, Crowned Ridge BOT Wind Farm, and Lake Benton BOT Wind Farm projects in order to provide Staff the information necessary to assess the actual economics of the project. Xcel agrees to provide updates regarding average annual capacity factors, congestion costs, O&M costs, and capital costs, as Xcel has already agreed to provide such reports for the Borders Wind, Pleasant Valley Wind, Courtenay Wind projects. Staff also notes that none of the 4 new wind farms proposed for recovery in this filing are being built to satisfy any renewable energy requirements as noted in response to DR2-11 which is attached to this memo.

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 EL16-032 was the first time the Company has provided the report. Courtenay Wind was placed in-service in December 2016 and was first reported in docket EL17-039.

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 $332.0 million through 2017. The actual costs were below the original forecasted costs of $342.9 million For 2017, Pleasant Valley produced 833,503,637 kWh of gross energy and had a net production of 832,946,820 kWh, had 135,930 kWh in total curtailment, and an average annual capacity factor of 47.5%.

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 $261.7 million through 2017. The actual costs were slightly below the original forecasted costs of $261.8 million. For 2017, Border Wind produced 644,766,065 kWh of gross energy and had a net production of 644,031,696 kWh, had 17,671,470 kWh in total curtailment, and an average annual capacity factor of 49.0%.

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 $287.0 million through 2017. The actual costs were below the original forecasted costs of $300 million. For 2017, Courtenay Wind produced 757,087,611 kWh of gross energy and had a net production of 756,401,305 kWh, had 1,716,040 kWh in total curtailment, and a capacity factor of 43.2%.

Tax Cuts and Jobs Act – Due to the passing of the Tax Cuts and Jobs Act, the 2018 revenue requirement decreased by approximately $977,000 and the 2019 revenue requirement decrease is expected to be approximately $1,142,000.

RECOMMENDATION

Staff recommends the Commission approve the revised Infrastructure Rider Adjustment Factor of $0.006853 per kWh and tariff sheet effective January 1, 2019.