STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS

FROM: PATRICK STEFFENSEN, BRITTANY MEHLHAFF, AND KRISTEN EDWARDS

RE: EL19-032 - In the Matter of the Petition of Northern States Power Company dba Xcel Energy for Approval of its 2020 Transmission Cost Recovery Eligibility and Rate Adjustment

DATE: December 5, 2019

BACKGROUND

On August 30, 2019, the South Dakota Public Utilities Commission (Commission) received a petition from Northern States Power Company dba Xcel Energy (Xcel) for approval of a revised Transmission Cost Recovery (TCR) rider adjustment factor for 2020. The filing also requested approval of the 2019 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 MISO[1] 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 EL18-036, the Commission approved TCR recovery of the 2019 revenue requirement associated with 14 previously approved transmission projects, one new transmission project, and MISO Schedule 26 expenses. In this docket, Xcel proposes to include four new projects for

[1] Midcontinent Independent System Operator, Inc.

2020. The proposed 2020 revenue requirement results in a rate of $0.002986 per kWh, calculated based on a January 1, 2020 effective date.

STAFF ANALYSIS

Updated Petition

The updated attachments, filed on December 4, 2019, reflect modifications Xcel has agreed to make to correct issues found during Staff's review of the model. Xcel's letter regarding the updated petition provides a thorough explanation of the four adjustments made to the initial filing. These adjustments represent accounting corrections in relation to the La Crosse – Madison and CapX2020 – La Crosse accounting transfer, 2018 IRS bonus depreciation, Sioux Falls Northern book depreciation, and NSPW depreciation rates. The cumulative effect of these four adjustments is an increase to the 2020 revenue requirement of approximately $87,000. Xcel's updated attachments reflect this increased revenue requirement.

Analysis of New and Updated Projects

West St. Cloud to Black Oak

The West St. Cloud to Black Oak project satisfies statute requirements as a rebuild of approximately 25 miles of existing 69 kV transmission line. This line has exceeded its expected life at 63 years old and has been identified by Xcel as a poor performing line due to its age, condition, reliability, and outage history. This line is vital to the system, as it serves Xcel's as well as other utilities' distribution load in the area. Thus, Xcel has determined it is imprudent to continue replacing single structures due to the number of structures currently requiring replacement, the poor condition of existing cross arms, the failing conductor, and the lack of lightning protection.

Eau Claire 345 kV Upgrade

The Eau Claire 345 kV Upgrade project also satisfies statute requirements as a rebuild of approximately 164 miles of existing 345 kV transmission line. The existing line is approximately 54 years old and has required replacement of multiple structures over the last 12 years. The remaining wood poles and crossarms have aged, weathered, and degraded over time to the point they are near the minimum allowable structural loading limitation allowed by National Electric Safety Code standards. This 345 kV line is important because it ties Minnesota to Wisconsin, and any outage along the line hinders Xcel's ability to serve western Wisconsin.

Bayfront to Ironwood 88 kV

This Bayfront to Ironwood 88 kV project satisfies statute requirements as a rebuild, and probable relocation, of an existing 88 kV transmission line (W3351) and an existing 115 kV transmission line (W3316), each approximately 36 miles long with portions across the Bad River Indian Reservation. Line W3351 is approximately 67 years old and Xcel asserts it needs replacement due to its age and condition.

Furthermore, the easement for this line expired in 2002, and the easement for Line W3316 will expire in 2025.

The project proposes relocation of these lines around the Bad River Indian Reservation due to the costs and challenges of obtaining new easements from the Bureau of Indian Affairs, the difficulty and increased cost of accessing the existing corridors on remote and rugged terrain with limited access, and the environmental sensitivities regarding the wetlands in the area. Relocating the lines around the Bad River Indian Reservation will increase the distance and cost of the new line; however, Xcel maintains it is a prudent business decision in order to eliminate and/or reduce costs associated with obtaining future easements, negotiating terms and conditions of future easements, construction and future maintenance on difficult terrain, future environmental challenges, and fees associated with a newly adopted axel fee on the Bad River Indian Reservation.

Xcel noted in its application that the project route is still under consideration, pending input from the public and a final determination by the Wisconsin Public Service Commission. Thus, final project costs will be determined once the route has been finalized, and the South Dakota Commission will continue to have the ability to review the prudency of the costs eligible for TCR recovery.

La Crosse to Madison 345 kV Line

The La Crosse to Madison 345 kV Line is a Multi-Value Project (MVP), was approved by MISO in December 2011, and was jointly developed with American Transmission Company (ATC). This 345 kV transmission line is approximately 182 miles long and was placed in-service in December 2018. MISO concluded, and Xcel and ATC confirmed, that this MVP line provides substantial net economic, reliability, and policy benefits to the region. In general, MVPs help expand and enhance the region's transmission system, reduce congestion, and provide improved access to affordable energy sources. And, this particular MVP interconnects with the CapX2020 La Crosse projects and increases the transfer capability between the NSPM system and the NSPW system.

Huntley to Wilmarth 345 kV Transmission Line Update

In Docket EL18-036, the Commission approved TCR eligibility for the Huntley to Wilmarth 345 kV Transmission Line; however, the exact route and associated cost was not known at the time. On August 5, 2019, the Minnesota Public Utilities Commission (MPUC) issued its order approving the western "Purple Route" as the final route. The H-frame version of this route was the least cost option among all the alternatives; however, the MPUC modified this baseline route in order to minimize agricultural impacts to landowners.

The MPUC required that 23 miles of existing 345 kV line be co-located with this new line and specified the use of monopole structures rather than H-frame, resulting in 122 fewer structures impacting the agriculture in the area. This change attributed to most of the 31 percent increase from last year's budget, but Staff would note this MPUC decision parallels a past South Dakota Commission decision. In Docket EL13-028, the Commission approved a 345 kV transmission line route from Big Stone South to

Ellendale that "adopted reasonable measures to minimize the effect of the Project on farming practices" by "preferring monopole structures rather than H-frame structures". The Final Decision and Order in this docket goes on to say that "the Applicant's efforts include the use of monopoles, placing structures in the field to allow farming around structures, creating spans between structures of approximately 700 to 1,200 feet".

Since this route chosen by the MPUC is more than 25 percent greater than the MISO baseline cost estimate, it has triggered a MISO variance analysis. Xcel expects MISO will either take no action or require a mitigation plan, as opposed to cancelling the project, since this project has been an assumed facility in MISO modeling since its approval in the MTEP16 process. As always, any changes can be trued-up in future TCR filings.

MISO ROE Complaints at the FERC

On November 21, 2019, the Federal Energy Regulatory Commission (FERC) adopted a new methodology for determining whether a jurisdictional public utility's rate of return on equity (ROE) is just and reasonable. When FERC applied the new methodology to the pair of complaints explained in Xcel's filing, the FERC determined that MISO transmission owners' current base ROE should be 9.88 percent. With the timing of this order, it is unknown at this time what the appropriate adjustments in this regard should be. Given this and the possibility of further appeals, Xcel and Staff believe it best to not make any hasty revisions at this time and include any revisions as a true-up in next year's TCR filing.

2019 TRACKER REPORT

The rate approved in Docket EL18-036 was based on the balance in the tracker account and the 2019 estimated revenue requirements. In this docket, Staff reviewed the revised 2019 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.

Updated Attachment 6 summarizes the tracker activity by month for 2019. Individual project detail for the projects is found on Updated Attachment 12.

2020 TCR REVENUE REQUIREMENT

The updated total estimated 2020 revenue requirement of $6,567,582, subject to later true-up to actual costs and recoveries, is based on the 2019 over-collection in the tracker account and the estimated 2020 revenue requirement associated with the 19 transmission projects and MISO Schedule 26 expenses.

The 2020 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 2020 rider balance calculations to reflect the cost of debt and capital structure at December 31, 2019 levels and use of the return on equity approved in its most recent rate case, Docket EL14-058.

2020 TCR RATE

The updated TCR rate is designed to be implemented effective January 1, 2020. The updated rate is calculated based on forecasted sales from January 2020 through December 2020. The updated TCR rate upon making the adjustments as described in Xcel's letter regarding the updated petition, effective January 1, 2020, is $0.003027 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 2019 tracker report, the forecasted 2020 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 updated 2020 revenue requirements and updated TCR rate of $0.003027 per kWh, with an effective date of January 1, 2020.