
STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS
FROM: JOSEPH REZAC & AMANDA REISS
RE: **EL20-025 – IN THE MATTER OF THE PETITION OF NORTHERN STATES POWER COMPANY
DBA XCEL ENERGY FOR APPROVAL OF ITS 2021 TRANSMISSION COST RECOVERY
ELIGIBILITY AND RATE ADJUSTMENT**
DATE: **December 18, 2020**

BACKGROUND

On September 1, 2020, 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 2021. The filing also requested approval of the 2020 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 EL19-032, the Commission approved TCR recovery of the 2020 revenue requirement associated with 15 previously approved transmission projects, four new

¹ Midcontinent Independent System Operator. Inc.

transmission projects, and MISO Schedule 26 expenses. In this docket, Xcel proposes to include five new projects for 2021. The proposed 2021 revenue requirement results in a rate of \$0.003446 per kWh, calculated based on a January 1, 2021 effective date.

STAFF ANALYSIS

Analysis of New and Updated Projects

Avon- Albany Line Rebuild

The Avon to Albany project satisfies statute requirements as a rebuild of approximately 7 miles of existing 69 kV transmission line. The existing line is 63 years old and has been identified by Xcel as a poor performing line due to its age and condition. This line is vital to the system, as it serves Xcel's as well as other utilities distribution loads in the area. Thus, Xcel has determined in it is imprudent to continue replacing single structures due to the number structures currently requiring replacement, the poor condition of existing cross arms, and the failing conductor.

Belgrade – Paynesville Line Rebuild

The Belgrade to Paynesville project satisfies statute requirements as a rebuild of approximately 10.7 miles of existing 69 kV transmission line. The existing line was originally built in 1940 with no record of being rebuilt. It has been identified by Xcel as a poor performing line due to its age and condition. This line is vital to the system, as it serves Xcel's as well as other utilities distribution loads in the area. Thus, Xcel has determined it is imprudent to continue replacing single structures due to the number structures past their useful live and are currently requiring replacement.

Canistota Junction – Salem Line Rebuild

The Canistota Junction to Salem project satisfies statute requirements as a rebuild of approximately 14.9 miles of existing 69 kV transmission line. The existing line was originally built in 1906 with no record of being rebuilt. It has been identified by Xcel as a poor performing line due to its age and condition. This line is vital to the system, as it serves Xcel's as well as other utilities distribution loads in the area. Thus, Xcel has determined in it is imprudent to continue replacing single structures due to the number structures past their useful life and are currently requiring replacement

CEN LCO 69 kV Line Rebuild

The CEN LCO projected project satisfies statute requirements as a rebuild of approximately 13.8 miles of existing 69 kV transmission line. The existing line was originally built in 1923 with no record of being rebuilt. This transmission line is in eastern South Dakota between Sioux Falls

and Lennox, SD. Like the other new projects in this filing, the line is vital as it serves Xcel's as well as other utilities distribution loads in the area. It has been identified by Xcel as a poor performing line due to its age and condition and many poles are past their useful life and replacing singular structures is no longer an option due to the number of structures requiring replacement now.

Long Lake – Baytown

The Long Lake to Baytown project will string new conductor on the open portion of an existing 115 kV line utilizing existing double circuit-capable structures. Several new structures will be required in order to terminate into the substations. After completion the existing conductor will be removed. This project is necessary as studies shows that, for summer peak conditions, loss of the King 345/115 kV transformer and the Red Rock – Afton 115 kV line would result in a thermal overload on the existing conductor. This is to ensure compliance with the NERC Standard TPL 001 4.

Bayfront to Ironwood 88 kV and Eau Claire 345 kV Update

These projects have been removed from the TCR tracker. These projects are in Wisconsin and are being constructed by the Northern States Power Company- Wisconsin (NSPW) operating company. Cost for NSPW projects are not billed through the Interchange Agreement to NSPM customers during the projects construction and thus should not be recovered through the TECR rider until the project is placed in-service. Therefore, all costs for the Bayfront to Ironwood 88 kV projects and the Eau Claire 345 kV upgrade project have been removed from the rider until they have been placed in service.

Regarding the Bayfront to Ironwood final project route, Xcel is still in the routing process and is collecting input from the public. Xcel anticipates submitting the Certificate of Public Convenience and Necessity with the Wisconsin PSC in the first quarter of 2021. The final route will be evaluated and eventually selected by the PSC during that proceeding.

West St. Cloud – Black Oak Update

This project shows a cost decrease of approximately \$7.4 million dollars due the original scope of work for the project being segmented out into a new project called the Avon – Albany Rebuild and is being requested for project eligibility in this rider. Separating the projects allows for better outage coordination and will divide the amount of time the line would need to be de-energized for construction in order to mitigate the areas system risk exposure. Splitting the construction into segments allows for better resource management and cost control.

MISO ROE Complaints at the FERC

Refunds were settled with MISO in early 2020 based on a November 2019 FERC order that set a 9.88 percent base ROE and the impact of those refund settlements are included in the 2020 actual RECB line item accounted for in this filing. Additional action taken at the FERC will likely result in additional resettlements but due to the timing and amount being unknown, these changes will be filed in next year's TCR Petition. Xcel outlines in detail the FERC actions taking place surrounding the MISO complaints in its filed petition.

2020 TRACKER REPORT

The rate approved in Docket EL19-032 was based on the balance in the tracker account and the 2020 estimated revenue requirements. In this docket, Staff reviewed the revised 2020 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 2020. Individual project detail for the projects is found on Attachment 12.

2021 TCR REVENUE REQUIREMENT

The total estimated 2021 revenue requirement of \$7,218,319, subject to later true-up to actual costs and recoveries, is based on the 2020 over-collection in the tracker account and the estimated 2021 revenue requirement associated with the 24 transmission projects and MISO Schedule 26 expenses.

The 2021 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 2021 rider balance calculations to reflect the cost of debt and capital structure at December 31, 2020 levels and use of the return on equity approved in its most recent rate case, Docket EL14-058.

2021 TCR RATE

The TCR rate is designed to be implemented effective January 1, 2021. The rate is calculated based on forecasted sales from January 2021 through December 2021. The updated TCR rate proposed to be effective January 1, 2021, is \$0.003446 per kWh.

Reasonableness of Overall Earning 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 2020 tracker report, the forecasted 2021 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 2021 revenue requirements and TCR rate of \$0.003446 per kWh, with an effective date of January 1, 2021.