**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA**

IN THE MATTER OF THE APPLICATION OF NORTHERN STATES POWER COMPANY DBA XCEL ENERGY FOR AUTHORITY TO INCREASE ITS ELECTRIC RATES

STAFF MEMORANDUM SUPPORTING SETTLEMENT STIPULATION

DOCKET EL22-017

Commission Staff (Staff) submits this Memorandum in support of the Settlement Stipulation (Settlement) of May 24, 2023, between Staff and Northern States Power Company dba Xcel Energy (Xcel or Company) in the above-captioned matter.

BACKGROUND

On June 30, 2022, the Company filed an application with the South Dakota Public Utilities Commission (Commission) requesting approval to increase revenues for electric service from customers in its South Dakota retail service territory by approximately $44.1 million annually or approximately 17.9%. A typical residential electric customer using 750 kWh per month would see an increase of $19.58 per month or 19.75% under Xcel's proposed rates.

Xcel's proposed increase was based on a historical test year ended December 31, 2021, adjusted for what Xcel believed to be known and measurable changes, a 10.75% return allowance on common equity, and a 7.65% overall rate of return allowance on rate base.

Xcel's last base rate increase application was filed on June 30, 2014[1]. Xcel states[2] that since that time, it has made significant investments in plant and infrastructure, including new wind and natural gas generation facilities and large transmission projects. In addition, Xcel has experienced increased labor and other operating costs. Xcel states a rate increase is necessary in order to continue to make investments in its system that will allow it to continue to provide safe, reliable, and efficient energy into the future.

The Commission officially noticed Xcel's filing on July 7, 2022, and set an intervention deadline of September 16, 2022. On July 22, 2022, the Commission issued an Order Suspending Operation of Proposed Rates; Order Assessing Filing Fee; Order Authorizing Consulting Contracts. On September 16, 2022, Steve Wegman, of Sioux Falls, South Dakota, filed a Petition to Intervene on his own behalf. On September 29, 2022, the Commission issued an Order Granting Intervention to Mr. Wegman. On

[1] See Docket EL14-058.
[2] See Public Rate Increase Notice

November 15, 2022, Xcel filed a Notice of Intent to Implement Interim Rates effective on and after January 1, 2023.

Commission Staff propounded 13 sets of formal discovery requests to Xcel. Within the 13 sets of discovery requests there were 343 total formal discovery requests and 136 sub parts to some of the requests. In addition, Staff conveyed numerous informal requests to Xcel. There were also numerous phone calls and meetings between Staff and Xcel personnel seeking additional and clarifying information.

Settlement discussions between Staff, Mr. Wegman, and Xcel commenced on March 14, 2023. Thereafter, the Staff and Xcel (jointly, the Parties) held additional settlement discussions in an effort to arrive at a mutually acceptable resolution of the issues presented in Xcel's filing. Ultimately, the Parties reached a comprehensive agreement on Xcel's overall revenue deficiency and other issues presented in this case including, but not limited to, class revenue responsibilities, rate design, and tariff concerns.

Mr. Wegman was unable to attend settlement discussions after March 14, 2023. Upon reaching a settlement in principle with Xcel, Staff discussed the major settlement points with Mr. Wegman and he indicated he was in agreement. The Parties provided the final settlement documents to Mr. Wegman. It is Staff's understanding that upon completion of his review, if Mr. Wegman agrees with the settlement, he will file a concurrence indicating as such.

OVERVIEW OF SETTLEMENT

Staff's revenue requirement determination is the result of a comprehensive analysis of Xcel's filing and information obtained during discovery. Staff accepted some Company adjustments, made corrections where necessary, modified other adjustments, and rejected those that did not qualify as known and reasonably measurable. Lastly, Staff introduced new adjustments not reflected in Xcel's filed case.

Company and Staff positions were discussed thoroughly at the settlement conferences. As a result, some positions were modified, and others were accepted where consensus was found. Ultimately, the Parties agreed on a comprehensive resolution of all issues. Staff believes the settlement is based on sound regulatory principles and avoids additional costly and unnecessary litigation.

The Parties agree Xcel's net revenue deficiency recovered through base rates is approximately $3,630,000. Additionally, the Parties agree that Xcel will continue the Infrastructure Rider with conditions as discussed below. The revenue requirement and supporting calculations described in this Memorandum, attachments, and exhibits depict Staff's positions regarding all components of Xcel's South Dakota jurisdictional revenue requirement.

The settlement revised the Infrastructure Rider tariff to include recovery of major capital additions placed in service in 2023, that Xcel had originally proposed to go into base rates, with the intent to recognize, with conditions, certain additional projects. The estimated incremental 2023 revenue requirements associated with the Infrastructure Rider projects is approximately $10,709,000.

When the base rate increase is combined with the 2023 Infrastructure Rider projects, the estimated 2023 overall revenue increase is approximately $14,339,000, justifying an approximate 5.85% increase in retail revenues.

The revenue increase by rate schedule is shown on Staff Exhibit___(BAM-3), Schedule 1. Staff Exhibit___(BAM-3), Schedules 2-1 through 2-4 reflect the settlement rates for each rate schedule. The comparison between present and settlement rates and resulting bill impacts, including the 2023 Infrastructure Rider projects impact, for the Residential Service rate schedules is shown on Exhibit___(BAM-3), Schedule 3.

Attachment A attached to this memo shows the overall South Dakota revenue increase and the percentage change broken out for each of the Base, Fuel Clause, Transmission Rider, Infrastructure Rider, and DSM Revenues categories resulting from the settlement. As shown in the attachment, some of the rider revenues will decrease to offset a portion of the base revenue increase.

Attachment B compares each individual rate element within the Residential Without Space Heating subclass and shows the change in each rate element. As show in the attachment, some of the rider rates are negative offsetting a portion of the base rate element increases.

STAFF OVERVIEW OF BASE RATE SETTLEMENT

Staff's settlement revenue requirement determination begins with total Company test year costs for the 12 months ended December 31, 2021, and allocates those amounts to the South Dakota retail jurisdiction. Staff then adjusted the December 31, 2021, test year results for known and measurable post-test year changes. Staff Exhibit___(JMR-1), Schedule 3 illustrates Staff's determination of Xcel's *pro forma* operating income under present rates. Staff Exhibit___(JMR-2), Schedule 2 illustrates Staff's calculation of Xcel's South Dakota retail rate base, and Staff Exhibit___(JMR-1), Schedule 2 and Staff Exhibit___(JMR-2), Schedule 1 summarize the positions. Staff Exhibit___(JMR-1), Schedule 1 summarizes Staff's determination of Xcel's revenue deficiency and total revenue requirement to be collected through base rates.

Below is a brief discussion of the issues that Staff identified in the case and Staff's view of the resulting settlement of each issue. Unless otherwise noted, all changes discussed below are changes from the Company's filed position. Attachment C provides a summary of the changes made to the Company's filed case compared to the settlement.

RATE BASE AND OPERATING INCOME ADJUSTMENTS

Test Year Rate Base – The Company proposed a test year rate base using the year-end balances as of December 31, 2021. The settlement revises this to an average rate base consisting of the average of the 13 month-end account balances, December 31, 2020, through December 31, 2021. This change had a net effect of decreasing rate base by approximately $26,474,000. The impact of this change on the revenue deficiency is a decrease of approximately $2,285,000.

Capital Known & Measurable – The Company proposed an adjustment to reflect the 2023 revenue requirements for capital projects that went into service late in 2021, in 2022, and 2023. The proposed adjustments reflect the incremental revenue requirement for 2023, compared to the revenue requirement already included in the 2021 test year. The Company's adjustment used a year-end rate base for 2022 and a 13-month average for 2023. Xcel's adjustment included 31 projects, several of which were comprised of multiple sub-projects.

The settlement revises the Company's adjustment to: 1) Reflect actual costs for non-operating income producing[3] projects placed in-service through 2022; 2) remove two projects identified as revenue-producing; 3) remove the Major Line Rebuild project as those subprojects remain in the TCR rider[4]; 4) remove all projects with in-service dates after December 31, 2022, as they are not used and useful[5]; 5) reflect the annualization of 2022 projects as part of this adjustment in lieu of being included in the Plant Annualization adjustment; and 6) reflect the impact of the settlement rate of return on the calculation of interchange revenues[6].

The impact of this adjustment reduces rate base by approximately $89,619,000. This also reduces operating revenues by approximately $1,980,000 and reduces depreciation expense by approximately $5,862,000[7]. The net impact of these changes on the revenue deficiency is a decrease of approximately $12,820,000[8].

Plant Annualization – Xcel proposed an annualization adjustment to reflect a full year of depreciation expense for plant that went into service during the test year and post-test year. The proposal didn't include a rate base annualization adjustment to reflect year-end rate base balances, because the proposal used year-end rate base balances for all per books rate base. The settlement reduces the depreciation expense annualization adjustment to only include non-operating income-producing plant and removes the annualization of Company-proposed 2022 and 2023 post-test year plant[9]. This adjustment decreases depreciation expense by approximately $2,701,000. The settlement also includes a corresponding rate base annualization adjustment of the same non-operating income-producing plant, because the settlement uses a 13-month average rate base. This increases rate base by approximately $5,266,000. The net impact of this adjustment on the revenue deficiency is a reduction of approximately $2,104,000.

Electric Revenue Year End – Xcel proposed to annualize revenue to an amount that reflected its test year end customer count. This was done in conjunction with Xcel's proposal to annualize all depreciation expense for test year plant additions, whether operating income-producing or not, in an attempt to satisfy the matching principle. However, the year-end revenue annualization adjustment does not result in a known revenue amount, and the matching principle can be satisfied with the settlement adjustment to only include non-operating income-producing plant in the depreciation expense and plant annualization adjustments. Thus, the settlement rejects this adjustment and decreases operating revenue and increases the revenue deficiency by $2,700,000.

[3] Projects must not increase revenues or reduce expenses.
[4] Refer to Docket EL22-022. Xcel proposed to keep the Major Line Rebuild projects in the TCR so that all line segments related to each specific line are being recovered through the same mechanism.
[5] See Infrastructure Rider Section.
[6] NSPM receives revenues from NSPW according to the interchange agreement. The authorized rate of return for NSPM will impact the amount charged to NSPW. Therefore, all interchange revenue adjustments must be recalculated based on the settlement rate of return.
[7] The depreciation expense included in Staff's Capital Known & Measurable adjustment includes approximately $583,000 for "annualizing" 2022 projects. Xcel initially included the estimated annualization associated with 2022 projects in its Plant Annualization adjustment. Staff's adjustment more appropriately recognizes these costs as part of the Capital Known & Measurable adjustment as the projects went into service post test year.
[8] See Infrastructure Rider section.
[9] Some of the 2022 plant annualization is captured in the Capital Known and Measurable adjustment and some of the 2023 plant annualization will be reflected in the Infrastructure Rider.

Wind O&M Rider Removal – During settlement discussions, the Parties agreed to cost recovery of certain wind farms in the Infrastructure Rider in lieu of base rates[10]. The Company proposed to remove any existing operations and maintenance expenses associated with these wind farms from the test year so as to not double recover any of these expenses when they are recovered through the rider. The effect of this adjustment reduces operating expenses and the revenue deficiency by approximately $398,000.

South Dakota Pay As Go – The Company proposed an adjustment to the accounting method for recovery of Other Post-Employment Benefits (OPEBs), as they have in past rate cases. This adjustment changes, for ratemaking purposes only, the OPEB accounting method used from the accrual method to the pay-as-you-go method, previously approved by the Commission. The settlement accepts the operating income portion of this adjustment and updates the rate base portion to incorporate a 13-month average balance rather than the year-end. This update increases rate base by approximately $155,000. The impact of this change on the revenue deficiency is an increase of approximately $19,000.

EOL Nuclear Fuel Update – End-of-life (EOL) nuclear fuel refers to the recovery of unused fuel costs at the time of reactor shutdown. At the end of the last fuel cycle, each reactor unit will contain fuel that is partially burned and fuel that is fully burned. Normally, the partially burned fuel would be recovered in future periods, but without those future periods this EOL accrual is necessary to eliminate a spike in expenses upon plant shutdown. This EOL accrual reserve is held within the Company as opposed to being placed in a separate trust account. Therefore, customers receive an offsetting benefit through a reduction in rate base. The most recent cost estimates show a decrease in the amount Xcel needs to recover by the end of reactor lives, causing a decrease in the annual accrual and a corresponding increase to rate base. The settlement revises the rate base component of this adjustment from the proposed year-end rate base convention to a 13-month average rate base. This revision decreases rate base by approximately $44,000. The settlement further updates the operating income portion of the adjustment to reflect the impact of the settlement rate of return on the calculation of interchange revenues, thus increasing operating revenues by approximately $3,000. The net impact of these changes on the revenue deficiency is a decrease of approximately $6,000.

Depreciation Study: Transmission, Distribution, and General (TDG) – For transmission, distribution, general, and intangible assets, Xcel proposed changes to the average service life, retirement curves, and net salvage rates in accordance with the most recent depreciation study at the time of the filing, which was completed in 2017. The settlement accepts the Company's proposed depreciation rates and revises the rate base adjustment to reflect a 13-month average rate base in lieu of year-end rate base. The net effect of this change increases rate base by approximately $274,000. The settlement accepts the operating income portion of this adjustment but updates the impact of the settlement rate of return on the calculation of interchange revenues. The net impact of these changes on the revenue deficiency is an increase of approximately $39,000.

Depreciation Study: Remaining Life – Xcel uses a remaining life method to determine depreciation expense for its production assets, which is the current net plant adjusted for expected net salvage divided by the current remaining life. The Company proposed to update the remaining lives to reflect the passage of time since these were last updated in 2014 and to reflect updates made to production facilities since that time. Company witness Wold describes all the remaining life changes in her testimony. Notably, the proposed remaining life changes for production plant included shortening the depreciable end-of-life for Allen S. King from June 2037 to December 2028 and shortening the end-of-

[10] See Staff Overview of Infrastructure Rider Settlement section

life estimate for Sherco Unit 3 from December 2034 to December 2030 to align with the Company's proposed retirement dates for these facilities. The Company also updated the negative net salvage rates in accordance with its 2020 Dismantling Study.

The Company's proposal also included a reserve reallocation, realigning book reserve among accounts within a functional group based on the theoretical reserve calculated in the depreciation study for each account within that function. The theoretical reserve is compared to the book reserve to determine if the unrecovered investment of the asset and its removal cost are over or under-accrued. Notably, the reserve reallocation shifts reserve balances from Sherco Unit 3, which has a longer recovery period, to Sherco Units 1 and 2, allowing additional removal costs associated with Sherco Units 1 and 2 to be recovered over the longer remaining life of Sherco 3. The resulting depreciation reserve excess associated with Sherco 1 and 2 roughly offsets the impact of Xcel's proposal to accelerate the depreciation associated with King and Sherco 3[11].

Staff accepted Xcel's depreciation study adjustment for its production assets, with the exception of the remaining life changes for the King and Sherco 3 plants. This change is separately addressed below under "King and Sherco 3 Remaining Lives".

The settlement also revises the rate base adjustment to reflect the 13-month average rate base in lieu of year-end rate base. This revision increases rate base by approximately $1,695,000. The settlement accepts the operating income portion of the adjustment but updates the impact of the settlement rate of return on the calculation of interchange revenues for an increase of approximately $105,000. The net impact of these changes on the revenue deficiency is an increase of approximately $251,000.

King and Sherco 3 Remaining Lives – Xcel requested adjustments to the remaining lives of its King and Sherco 3 units for depreciation purposes to match the Company's proposed retirement dates for these units, which are 2028 and 2030 respectively. The current depreciable lives of King and Sherco 3 are through June 2037 and December 2034, respectively.

Staff evaluated the relevant Integrated Resource Plan and related updates and was not able to conclude that the decision to prematurely retire these plants was cost effective at the present time. Further, material changes in circumstances including the impact of the change to a seasonal resource construct at the Midcontinent Independent System Operator (MISO) cause more uncertainty.[12] For instance, as indicated in response to discovery, Xcel stated that MISO's seasonal resource adequacy construct was not sufficiently developed to conduct analyses on changing dependable or accredited capacity associated with non-thermal resources. As a result, certain sensitivity cases that contemplated retaining the current remaining lives of Sherco 3 and King were not fully evaluated given the change to a seasonal construct.

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[11] As discussed under "King and Sherco 3 Remaining Lives", the settlement reflects no changes to the remaining lives of King and Sherco 3. Therefore, the depreciation reserve excess associated with Sherco 1 and 2 is available to offset other areas of the revenue requirement.

[12] At present, MISO requirements consist of an annual construct whereby utilities are required to ensure enough capacity plus reserves to meet firm coincident peak demand (with MISO's annual peak). Starting with the June 2023-May 2024 planning year, MISO will transition to a seasonal construct whereby utilities will be required to ensure enough capacity plus reserves to meet firm coincident peak demand requirements for each of the seasons instead of an annual only basis.

Given the foregoing observations, the settlement reflects no changes to the remaining lives of King and Sherco 3 at the present time. Xcel may present its case to change the lives in a future rate case or seek recovery of the undepreciated balance if a filing is submitted to the Commission after Xcel retires these units. In the event Xcel does not file a rate case prior to the retirement of Sherco 3 and King, Xcel may include the undepreciated plant amounts in a regulatory asset and amortize the regulatory asset over the remaining authorized depreciable life of each plant. This amortization treatment will essentially allow the plants to continue to be depreciated in between rate cases, at the rates currently in effect, reducing the ultimate regulatory balance remaining at the time Xcel files a rate case. The Settlement clarifies that any future recovery would be subject to the Commission's determination at that time. Further, any earnings related to O&M savings arising from the retirement of Sherco 3 and/or King above the Company's authorized rate of return for each year will be refunded to customers. Staff also anticipates that any impacts related to such cost reductions would be evaluated and addressed in the Infrastructure Rider in the event the Company seeks to utilize this rider to recover any new generation replacing the retired capacity outside of a rate case.

Retaining current lives for Sherco 3 and King results in an increase to rate base of approximately $1,308,000, a reduction to depreciation expense of approximately $3,633,000 and a decrease to interchange revenues of approximately $523,000. The net impact of these changes on the revenue deficiency is a decrease of approximately $2,674,000.

SD Decommissioning – Xcel's nuclear decommissioning accrual accumulates the final removal costs for the Company's three nuclear units. The amounts collected through base rates are deposited in an external trust fund per Nuclear Regulatory Commission (NRC) rules. The last update to this annual accrual occurred in rate case docket EL12-046. Therefore, Xcel proposed an update in this case to increase this accrual by approximately $6,958,000 due to a number of factors, including:

1. Increase in nominal cost estimates in excess of what was assumed with prior escalation factors.
2. Increase in cost escalation factors going forward.
3. Decrease in expected future returns on investments within the trust.

The decommissioning accrual should reflect the best possible engineering estimate of the specific, identifiable costs which are expected to be incurred. Thus, the settlement accepts[13] the adjustment with the following modifications:

1. As in prior rate cases, contingency costs have been removed, since these are non-specific, inflated costs that should not be charged to ratepayers.
2. The accrual has been adjusted to reflect the 10-year proposed extension at the Monticello nuclear plant.

These modifications decrease depreciation expense and the revenue deficiency by approximately $5,423,000.

Prairie Island Extended Power Uprate (EPU) Recovery – In 2008, Xcel began the process of obtaining approvals from the Minnesota Public Utilities Commission (MNPUC) and the Federal Nuclear Regulatory

[13] The settlement accepts Xcel's proposal to include future Department of Energy (DOE) reimbursements after shutdown to offset the expected future decommissioning costs in order for current customers to receive the credits they are due over the remaining lives of the nuclear plants.

Commission (NRC) to extend the operating life of the Prairie Island Nuclear Generating Plant[14]. The 164 MW EPU was expected to be implemented during upcoming scheduled refueling outages. The MNPUC granted Xcel a Certificate of Need for the Prairie Island EPU in December 2009.

However, Xcel soon encountered several changes that led the Company to reassess the project including[15]: (1) a reduction in size due to eliminating a component of the upgrade found to be not cost effective; (2) project implementation delays; (3) increased costs; (4) increased regulatory scrutiny; (5) lower customer demand forecasts; and (6) lower natural gas prices.

As a result of the changed circumstances, Xcel concluded that the outstanding risks of further delay and the increased costs outweighed the benefits associated with the EPU and decided to abandon this project at that time.

Following this decision, the Company created a deferral account to track the abandoned Prairie Island EPU project costs. In this rate case, Xcel proposed an adjustment to amortize these costs over the remaining life of the plant, which is 11 years and 4 months beginning January 2023.

The settlement accepts the Company's proposed recovery of the amortized abandoned project costs. However, given the project was abandoned, the settlement reflects only a debt return on rate base in lieu of the weighted average return on rate base. The reduction in return recognizes that while the costs to evaluate the EPU project and begin the process for the necessary approvals was prudent, the project is not used and useful and therefore the rate-making treatment should balance the interest of both the ratepayers and shareholders. Since Staff's model does not separately identify debt return and equity return for each adjustment, the model reflects a rejection of the rate base portion of the adjustment and, in addition to accepting the Company's amortization adjustment[16], also includes the debt return as an expense[17] in order to appropriately capture the revenue requirement impacts of the settlement regarding return on this item. This change reduces the revenue requirement by approximately $90,000.

Income Tax Tracker – Xcel recently concluded tax audits with the IRS and the Minnesota Department of Revenue for the 2010 through 2016 tax years. As a result of the audits, Xcel paid additional taxes and interest on the disputed amounts. Xcel then proposed in this case to collect these amounts over a three-year amortization period, with the unamortized balance included in rate base. The settlement rejects Xcel's proposed treatments of audit-related costs, thereby decreasing rate base by approximately $295,000 and decreasing amortization expense by approximately $147,000. The impact of this adjustment on the revenue deficiency is a decrease of approximately $171,000.

Cash Working Capital Adjustment – Xcel's proposed rate base included an allowance for cash working capital based on a lead-lag analysis. A lead-lag analysis examines the timing of the Company's receipt of service revenues from customers in relation to the Company's payment of expenses to vendors and employees. Staff carefully examined Xcel's revenue lag and expense lead day determinations and made the following modifications, which are consistent with Staff adjustments in prior rate cases:

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[14] The licenses issued by the NRC were set to expire in August 2013 for Unit 1 and October 2014 for Unit 2.
[15] Refer to Company Witness Mandich's Direct Testimony for additional detail.
[16] See Exhibit___(JMR-1) Schedule 3, column (y), "SD PI EPU Recovery"
[17] See Exhibit___(JMR-1) Schedule 3, column (au), "PI EPU Debt Only"

1. Revised the expense lead days for interchange expense, payroll, incentive compensation, and federal income tax;
2. Included separate lead days for vacation pay, depreciation, deferred federal income tax, investment tax credit, gross receipts tax, and interest on long term debt;
3. Revised revenue lag days to decrease interchange and retail revenue lag days; and
4. Revised expenses per day to incorporate into the lead-lag analysis the impacts of Staff's recommended adjustments to pro forma operating expenses.

These modifications decreased rate base by approximately $9,514,000. The impact to the revenue deficiency is a decrease of approximately $927,000.

Tax Collections Available – The Company experiences a timing difference between receipt of funds for sales taxes and employee withholding taxes and when the Company remits those funds to the taxing authorities. The settlement includes a rate base adjustment to reflect the cash flow-related benefit it receives due to this timing difference. Since these forms of tax collection do not flow through the Company's income statement, they are not part of the traditional lead lag study and are thus addressed separately with this adjustment. The adjustment results in a decrease to rate base of approximately $624,000 and a reduction to the revenue deficiency of approximately $54,000.

Late Payment – Xcel proposed an adjustment that eliminates test year late payment revenue in lieu of using actual payment collection days in the cash working capital calculation, where, per statute, a 20-day period is used. The cash working capital adjustment does not account for late payments, only on-time payments. Therefore, it is appropriate for Xcel to retain the late payment fees collected in the test year and to not include them in the revenue requirement. This is consistent with past ratemaking treatment. The settlement accepted this adjustment.

Other Working Capital – The settlement reflects a more recent 13-month average for materials and supplies, fuel stocks, prepayments, and customer advances. This adjustment increases rate base by approximately $401,000, resulting in an increase to the revenue deficiency of approximately $35,000.

Net Operating Loss – Over the past several years, bonus depreciation previously approved by Congress significantly increased Xcel's annual tax deductions. The increased deductions, however, exceeded Xcel's income resulting in a tax loss. Because of the tax loss position, Xcel was not able to utilize all of its allowable deductions in the year they were earned. It had recorded deferred taxes relating to these tax deductions, nevertheless. The accumulated deferred taxes are used as an offset to Xcel's rate base. Therefore, it was necessary to adjust Xcel's rate base to reflect the unused tax deductions. Xcel will now be able to utilize more of its previously unused tax deductions given the revenue increase agreed to by the Parties. The impacts of this greater utilization of tax deductions on Xcel's rate base and on Xcel's deferred tax expense have been reflected in the settlement revenue requirement. The result of recalculating this adjustment to reflect the effect of other adjustments incorporated in the settlement is to increase rate base by approximately $963,000 and to decrease operating expense by approximately $542,000. The impact to the revenue deficiency is a decrease of approximately $459,000.

Net Operating Loss (NOL) Tax Reform Accumulated Deferred Income Tax (ADIT) Average Rate Assumption Method (ARAM) – The settlement in Docket GE17-003[18] requires Xcel to amortize its excess plant-related ADIT using the ARAM. Therefore, the Company proposed an adjustment in this case to amortize the excess plant-related ADIT using ARAM. The settlement accepts this adjustment, however, it revises the rate base portion of the adjustment to reflect a 13-month average balance rather than the year-end. This increases the revenue deficiency by approximately $46,000.

Interest Synchronization – The Settlement synchronized the tax deduction for interest expense with the weighted cost of long-term debt and the historic test year rate base as adjusted for known and measurable changes. While the methodology is the same, Staff's model calculates interest synchronization in one step whereas the Company's model calculates interest synchronization for each adjustment individually[19].

Land Sale – Staff proposed a rate base adjustment to reflect Xcel's sale of 348 acres of land in Sherburne County at its Sherco power plant. This adjustment decreases rate base by approximately $155,000 and decreases the revenue deficiency by approximately $13,000. The settlement also requires Xcel return to customers via the Infrastructure Rider[20] the approximate $422,000 net gain from this land sale and return to customers via the interim rate refund a $235,000 net gain from the sale of three fuel storage tanks at its Inver Hills plant[21].

Rate Case Expense – Xcel proposed to amortize its original estimate of rate case expenses over the next three years. The Settlement accepts the proposed three-year amortization period and updates rate case expenses based on actual costs incurred. The Settlement also agrees to forgo recovery on rate case expense resulting in finalizing EL14-058. Rate case expenses reflected in the settlement total approximately $715,000. Expenses are based on actual expenses incurred to date through May 8, 2023. The Settlement provides for the rate base inclusion of one-half of the amortizable costs in rate base, representing the average unamortized balance over the three-year period. This adjustment decreases amortization expense by approximately $206,000 and increases rate base by approximately $358,000. This adjustment reduces the revenue deficiency by approximately $175,000.

Monticello Extension – Xcel's proposal to seek an operating life extension for the Monticello nuclear plant was found to be cost effective in all of the sensitivity cases in the resource plan. The plan consisted of proposing a license extension at Monticello to extend the operational life for ten years. Given the resource plan results associated with this base load resource, the settlement extends the depreciable life by ten years, resulting in a depreciation expense reduction of approximately $3,385,000, an operating revenue reduction of approximately $483,000, and an increase to rate base of approximately $1,212,000. The net impact of this adjustment on the revenue deficiency is a decrease of approximately $2,479,000.

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[18] In the Matter of Staff's Request to Investigate the Effects of the Tax Cuts and Jobs Act on South Dakota Utilities
[19] All individual adjustments with a rate base component have an operating income impact from removing interest sync from the Company filed position to the settlement position given Staff's model moves all interest synchronization impacts to a cumulative adjustment.
[20] The land sale will not be finalized in time to return the gain on sale via the interim rate refund.
[21] There was zero rate base in the test year associated with the three fuel storage tanks at the Inver Hills plant.

Wind Farms Extension - During settlement discussions, the Company and Staff agreed to adjust the remaining lives of non-repowered wind farms from 25 to 35 years.[22] These include: Blazing Star I, Blazing Star II, Freeborn Wind, Lake Benton II, Courtenay Wind, Foxtail Wind, and Crowned Ridge II[23]. This modification is consistent with recent and updated expectations by other utilities such as Otter Tail Power Company. Extending the remaining lives of these wind farms by ten years reduces operating revenues by approximately $262,000, reduces depreciation expense by approximately $1,799,000, and increases rate base by approximately $647,000. The net impact of this adjustment on the revenue requirement is a reduction of approximately $1,321,000.

Wage Adjustment – The Company proposed to increase wages by 3.0% in 2022 and 3.0% in 2023 for both union and non-union labor. Union wages are set in contract and are effective January 1 of each year. Non-union wages are effective in March of each year. The settlement revises this adjustment to include the following:

1. Annualized 2021 non-union test year amount to fully reflect March 2021 increase.
2. Actual 2022 non-union increase of 4.00%.
3. Actual 2022 union increase of 2.50%
4. Actual 2023 non-union increase of 4.00%
5. Actual 2023 union increase of 6.10%

These modifications increased operating expense and the revenue deficiency by approximately $566,000.

Incentive Pay – The Company proposed that it be allowed to recover Annual Incentive Plan (AIP) expenses up to 20% of base pay, approximately $146,000. Staff accepted this adjustment with the condition that if the Company does not pay AIP during any given year, the total amount of AIP expenses included in base rates for each year AIP is not paid will be entered into an account and be refunded to ratepayers in the Company's next rate case.

Incentive: Long Term Removal – The Company proposed an adjustment to remove all Long-Term Incentive (LTI) compensation expenses, approximately $804,000, from the test year and made separate adjustments to propose adding back various components of LTI compensation expenses. Staff accepted this adjustment.

Environmental Long-Term Incentive (LTI) – The Company proposed an adjustment to add in 100% of expenses related to the Environmental LTI program. Staff rejected this adjustment, decreasing operating expense and the revenue deficiency by approximately $178,000.

Time Based Long-Term Incentive (LTI) – The Company proposed an adjustment to add in 100% of expenses related to the Time Based LTI program, approximately $462,000. Retaining key employees by offering an incentive for remaining with the Company is beneficial to ratepayers by not requiring the Company to retrain key employees due to turnover. Staff accepted this adjustment.

Pension: Non-Qualified SERP – The Company proposed an adjustment to remove all Pension: Non-Qualified SERP, approximately $22,000. Staff accepted this adjustment.

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[22] The remaining lives for Nobles and Grand Meadow are extended by 20 years as part of the repowering effort. This was included in the Company's filed case.
[23] The Dakota Range extension will be reflected in the Infrastructure Rider

Advertising – Xcel proposed an adjustment to remove advertising expenses that should not be recovered from ratepayers. The settlement accepted this position and removed additional advertising costs which do not provide for the provision of safe, adequate, and reliable electric service for South Dakota ratepayers. This additional adjustment reduced operating expense and the revenue deficiency by approximately $43,000.

Dues: Professional Associations – Xcel proposed an adjustment to remove approximately $6,000 of association dues. The settlement accepted this adjustment and removed additional association dues that did not provide for the provision of safe, adequate, and reliable electric service for South Dakota ratepayers. The effect of this additional adjustment reduced operating expenses and the revenue deficiency by approximately $22,000.

Dues: Chamber of Commerce – Xcel proposed to include approximately $15,000 in Chamber of Commerce dues in its cost of service. Staff concluded that dues paid to Chamber of Commerce organizations do not provide for the provision of safe, adequate, and reliable electric service for South Dakota ratepayers. Therefore, Staff rejected this adjustment, reducing operating expenses and the revenue deficiency by approximately $15,000.

Aviation – Xcel proposed an adjustment to remove 50% of aviation expenses, approximately $57,000. Staff accepted this adjustment.

Customer Deposits Expense – The Company proposed an adjustment to recover approximately $1,000 of interest paid on customer deposits. This treatment is consistent with past rate cases, and Staff accepted this adjustment.

Economic Development Donations – Xcel proposed an adjustment to add approximately $50,000 to its recoverable Economic Development Donations. Xcel has had an economic development recovery program in place since the early 1990s and does not propose any changes to their plan. Xcel records all economic development donation expenses below the line as they are incurred. This adjustment adds back into the test year the recoverable portion of the 50/50 split of $100,000 in expenses related to economic development donations, excluding labor. The settlement accepted this adjustment.

Employee Expenses – Xcel proposed an adjustment to remove approximately $10,000 in employee expense that it determined is inconsistent with the Company’s guidelines in its Employee Expense Policy or were identified as generally not being needed for the provision of utility service. Staff accepted this adjustment.

Foundation Admin – The Company proposed an adjustment to remove approximately $11,000 in Foundation Administration expenses. Staff accepted this adjustment.

Credit Card AutoPay – The Company proposed to eliminate the $1.50 per transaction processing fee paid by customers to a third-party vendor when a customer chooses to pay their electric bill with a credit or debit card. In order to eliminate this fee, Xcel proposed to increase operating expense by $400,000 to recover the third-party vendor costs from all ratepayers. The settlement rejects this adjustment, reducing operating expenses and the revenue deficiency by $400,000.

Foundation and Other Donations – Xcel proposed an adjustment to include in its cost of service 50% of its corporate charitable contributions. The settlement rejects this adjustment, reducing operating expenses and the revenue deficiency by approximately $106,000.

Transmission Return on Equity (ROE) – Xcel proposed an adjustment to decrease net operating revenue from the revenue amount included in per books, which was calculated in Attachments O, GG, and MM of the MISO tariff using the FERC return, to a revenue amount using the settlement ROE from this case. The settlement rejects this adjustment, because South Dakota customers should receive the full benefit of revenue calculated at the FERC return for other utilities' use of these facilities. This increases net operating revenue and decreases the revenue deficiency by approximately $318,000.

COVID Deferral – The Company proposed to include the bad debt expense from March 13, 2020, through March 31, 2022, that was in excess of the bad debt included in the test year in the last rate case and amortize the excess amount over a three-year period. Staff rejected this adjustment, decreasing operating expenses and the revenue deficiency by approximately $578,000.

Weather Normalization – The Company's filed "per books" retail revenues were based on weather normalized sales. Xcel's weather normalization adjustment reduced approximately 46,000 MWh from calendar month actual sales, an approximate $4,392,000 adjustment to present revenues. On its review of the Xcel's methodology to calculate the adjustment[24], Staff found the statistical estimation of weather sensitivity reasonable, but objected to Xcel's use of inhouse 20-year averages to determine normal weather. Staff preference and Commission precedent is to use 30-year National Oceanic and Atmospheric Administration (NOAA) normals which reflect international (World Meteorological Organization) standards for determining climate norms. Xcel used two weather variables, Heating Degree Days (HDD) for the heating season, and a Temperature-Humidity Index (THI) for the cooling season. Consistent with past practice, Staff calculated the weather effect from heating based on the NOAA HHD normals developed using the 30-year period, 1991-2020. NOAA does not develop normals for THI. Where Xcel has used THI in the past, Staff's approach has been to scale Xcel's THI data to NOAA's Cooling Degree Days (CDD) data. Staff did so again in this case.

Based on the variance (uncertainty) of the scaling factors, Staff developed an acceptable range (using a 95% confidence interval) for normalized sales. The agreed upon settlement weather normalized sales adjustment falls within this range. Staff's determination of the settlement reduces calendar month actual sales by approximately 38,000 MWh. Since the "per books" retail revenues included on Exhibit___(JMR-1) Schedule 3, column (b) are based on the Company's weather normalized sales, Staff's settlement adjustment reflects the difference between the Company's proposed weather normalized sales and the settlement weather normalized sales. The effect of this adjustment increases operating revenues and decreases the revenue deficiency by approximately $654,000.

Rider: Transmission Cost Recovery (TCR) – The Company proposed to move into base rates all in-service projects that are currently being recovered in in the rider. The TCR adjustment removes all revenues and costs from the cost of service for the MISO Regional Expansion Criteria and Benefits (RECB) that will continue cost recovery in the rider after the implementation of final rates. The ongoing projects that will remain in the TCR do not have any revenue requirement impacts in the test year, therefore no rider removal is necessary for those projects. The adjustment ensures no double recovery of these costs. The

[24] Xcel's weather normalization adjustment also included an adjustment to sales due to COVID sensitivities. Staff removed this portion of the adjustment.

adjustment has a net zero impact on the pro forma year revenue requirements. Staff accepted this adjustment.

Property Tax – The Company proposed to include in its cost of service forecasted incremental increases in property taxes for 2023. This settlement reflects an adjustment to include actual, known 2022 property tax expenses. This adjustment decreases operating expenses and the revenue deficiency by approximately $944,000.

Vegetation Management – Staff proposed an adjustment to average vegetation management expenses over a five-year period from 2018 to 2022, consistent with prior treatment of this expense. This adjustment decreases operating expenses and the revenue deficiency by approximately $111,000.

Storm Damage – Staff proposed an adjustment to average storm damage operations and maintenance expenses over a five-year period from 2017 through 2021, consistent with prior treatment of these expenses. The effect of this adjustment increased operating expenses and the revenue deficiency by approximately $96,000.

Removal of Demand Side Management (DSM) Costs and Revenues – Staff proposed an adjustment to remove DSM costs and revenues from the test year. This adjustment removes approximately $1,156,000 in revenues and approximately $1,156,000 in expenses. The net effect of this adjustment is no change to the revenue requirement.

Bad Debt – Staff proposed an adjustment to test year bad debt expenses. Staff used a three-year average of South Dakota billed revenues and a three-year average South Dakota bad debt expense to calculate an uncollectible rate percentage. Staff used this average uncollectible rate to calculate the adjusted test year bad debt expense based on Staff's adjusted test year revenue. Staff also used the uncollectible rate to calculate the bad debt expense based on Staff's calculated revenue deficiency. This adjustment increases bad debt expense and the revenue deficiency by approximately $539,000.

Misallocations – Staff proposed an adjustment to correct various misallocations discovered during its analysis of Statement H and per books costs. This adjustment decreases operating expenses and the revenue deficiency by approximately $10,000.

JURISDICTIONAL COST OF SERVICE

Xcel Energy has four operating companies, one of which is Northern States Power – Minnesota (NSPM). Xcel Energy also has a Service Company that provides administrative, human resources, and other services to the four operating companies and to Xcel Energy's non-utility affiliate companies. A jurisdictional cost of service study is therefore necessary to separate and to allocate joint and common costs between NSPM's South Dakota retail operations and all non-South Dakota jurisdictional operations. Xcel's filed jurisdictional cost of service study in this proceeding is consistent with the allocation procedures that were used and approved by the Commission in Xcel's last South Dakota rate case (Docket EL14-058) and is consistent with the jurisdictional cost studies filed by NSPM in its recently completed Minnesota electric rate case (MPUC Docket E002/GR-21-630) and the last rate case filed with the North Dakota Public Service Commission (PU-20-441). Staff accepted the Company's jurisdictional cost study, and the results of that study are reflected in the settlement revenue requirement determination.

COST OF CAPITAL AND RATE OF RETURN

Xcel's initial filing requested an overall rate of return (ROR) of 7.65%, based upon a capital structure of 46.99% long-term debt and 53.01% common equity. The calculated cost of debt for this capital structure was 4.14%, and the requested return on equity (ROE) was 10.75%. Staff's analysis initially challenged all three components of the overall ROR: (1) capital structure, (2) embedded cost of debt, and (3) the required ROE.

[Begin Confidential] [redacted]

[redacted] **[End Confidential]** the settlement overall ROR is 6.82%.

RATE DESIGN ISSUES

The Parties agree in principle on all issues regarding rate design and the class revenue distribution. The settlement position reached between Staff and Xcel is discussed below.

Class Cost of Service/Spread of the Increase – Xcel's filed case included a class cost of service study (CCOSS). A CCOSS is useful in assigning revenue responsibility to the rate classes that Xcel serves and in designing rates within each class. While certain refinements were made, the allocation methods reflected in Xcel's CCOSS are generally the same as those that were reflected in previous CCOSS studies filed by Xcel and accepted by Staff and the Commission. Staff, however, continues to object to Xcel's use of the minimum distribution system approach to allocate a significant portion of its distribution system (i.e., conductors and transformers) based on the number of customers served. Doing so results in far too many costs being allocated to the Residential class. As a result, Xcel recommended a larger increase, on a percentage basis, to the Residential classes than it recommended for the other classes.

On the other hand, the Staff contends that the distribution facilities in question are designed and built to serve customers' maximum loads and, therefore, should be allocated on a non-coincident demand basis. Staff's approach shifts more cost responsibility to the Commercial and Industrial (C&I) rate classes.

To resolve this issue, both Parties agreed to increase revenues by a uniform percentage increase across all classes. This approach preserves the relative revenue-to-cost differentials between rate classes that were established in Xcel's last electric rate case – Docket EL14-058. The following table compares the revenue increase by rate class on a percentage basis that Xcel originally proposed and the class increases agreed to in the Settlement.

Increases by Major Rate Class

Rate Class	Xcel Proposed[25]	Settlement without 2023 Infrastructure Rider
Residential	19.66%	1.44%
C&I Non-Demand	16.24%	1.44%
C&I Demand	16.74%	1.44%
Public Authorities	9.37%	1.56%
Street Lighting	0.00%	1.44%
Total Revenue	**17.85%**	**1.48%**

As is shown in the table above, the percentage increases under the Settlement is more favorable to the Residential and C&I Non-Demand classes than under Xcel's original proposed spread of the increase, which is consistent with Staff's rejection of the minimum distribution system approach to allocate distribution facilities.

Rate Design (Residential Customer Service Charge) – Xcel claimed that its filed CCOSS supported a $23.07 residential customer charge. Rather than impose this charge, however, Xcel proposed a $1.50 per month increase in the residential customer charge. Staff's analysis of the Company's underlying cost of service indicated a much different result. In fact, Staff concluded that the existing monthly customer service charges already exceed what Staff believes is a reasonable allocation of customer-related costs. For settlement purposes, the Parties agreed to cap the increase to the Residential customer charge at one-half the overall percentage increase assigned to the Residential class.

STAFF OVERVIEW OF INFRASTRUCTURE RIDER SETTLEMENT

The settlement approved by the Commission in Docket EL12-046 established an Infrastructure Rider to allow recovery of specific major capital additions and any changes in 2013 property taxes from the property taxes included in the test year.

The Infrastructure Rider was first established under the Commission's general authority provided in SDCL 49-34A. The settlement approved by the Commission in Docket EL14-058 continued the Infrastructure Rider, allowing recovery of specific capital additions, with the opportunity to request inclusion of additional projects annually. In Docket GE17-003, as part of the resolution of the Commission's investigation of the impacts of the Tax Cuts and Jobs Act (TCJA), Staff and the Company stipulated to allowing the Company to only seek Infrastructure Rider recovery of new wind generation projects and the costs of terminating certain biomass power purchase agreements going forward. The Infrastructure Rider has continued in this form up until the filing of this current rate case and the annual Infrastructure Rider filing in Docket EL22-026.

[25] Exhibit___(NNP-1), Schedule 2

In this current rate case, Xcel proposed to roll the costs associated with the now completed projects from the Infrastructure Rider into base rates. The settlement shifts cost recovery of all Infrastructure Rider projects to base rates, with the exception of revenue requirements associated with wind projects with in-service dates of 2022 and beyond. Retaining projects with recent in-service dates ensures that the reductions associated with depreciation expenses are incorporated in the annual adjustments. These projects are as follows:

- Dakota Range Wind approved in Docket EL20-026
- Nobles Wind Repowering approved in Docket EL21-028
- Northern Wind[26] approved in Docket EL21-028
- Grand Meadow Wind

All four projects have in-service dates after January 1, 2022, and all except Grand Meadow have been approved for cost recovery in past Infrastructure Rider filings.

Grand Meadows is a 100.5 MW wind repowering project located in Mower County, Minnesota. The facility was originally placed into service in 2008. The proposed project will uprate the existing turbines by replacing internal and external components and is expected to result in an efficiency gain of approximately 34% and extend the plant's useful life for another 20-year period. The project's in-service date is 2023.

Xcel conducted the same proforma and portfolio analyses as was done for the Nobles repowering project that the Commission approved in docket EL21-028. The Inflation Reduction Act provisions result in 100% applicability of the production tax credits. The proforma analysis consisted of conducting initial screening to evaluate the impacts with and without Grand Meadow repowering. The analysis indicates nearly $53 million in savings over the extended life of the plant. The portfolio analysis consisted of wind repowering projects, including the Nobles repowering project using the EnCompass modeling software used for resource planning. This analysis showed that the portfolio, as a whole, provides $163 million in savings from a present value of revenue requirements (PVRR) perspective.[27]

Xcel also proposed to include in base rates several plant additions with estimated 2023 in-service dates. Since these plant additions are not yet in-service and do not meet the Commission's standard for a known and measurable adjustment, the settlement does not include these projects in base rates. However, Staff believes the estimated revenue requirements associated with projects planned for 2023 would cause an immediate significant revenue deficiency and likely necessitate another rate case in 2023 as well as subsequent years. Staff continues to be concerned about the rate shock annual rate cases would cause and therefore collaborated with Xcel to refresh the Infrastructure Rider in order to alleviate the need for additional rate cases in the near future.

However, given the current economic landscape including delays caused by supply chain issues, committing to a specific list of projects for 2023 in the Infrastructure Rider was an issue for Xcel. To alleviate this concern, the Parties agreed to limit the Infrastructure Rider for 2023 to non-operating income producing projects totaling no more than $13.9 million in 2023 revenue requirements. Currently, Xcel's estimated 2023 Infrastructure Rider revenue requirements associated with some projects initially proposed to be included in base rates and alternative 2023 projects is approximately $10.7 million.

[26] Includes the Northern Wind expansion, referred to as Rock Aetna

[27] See Table 9 on page 51, Mandich direct testimony. PVRR results exclude assumptions related to externalities.

Going forward, the Company may seek recovery of other non-operating income producing projects initially proposed for inclusion in the rate case as 2023 additions, which have been delayed[28]. Xcel may also request to include additional projects beginning in 2024, with the condition that the individual project revenue requirements are $250,000 or greater on a South Dakota jurisdictional level[29]. This condition limits the use of the Infrastructure Rider to major projects impacting the revenue requirement. A project at this South Dakota revenue requirement level equates to approximately a $50 million capital project which requires board of director approval according to the Company's Capital Governance policies.

The Infrastructure Rider continues to use the existing cost of service model. The Infrastructure Rider is based on estimated costs of the capital projects subject to later true-up to their actual costs, in-service dates, and recoveries. The Parties have agreed to apply the ROR established in this settlement to the rider.

The Parties also agreed that going forward, all wind Production Tax Credits (PTCs) will be credited to customers through the Infrastructure Rider. Currently, PTCs are credited through the fuel clause. However, this has created monthly volatility in the fuel clause. Flowing the credits through the Infrastructure Rider instead should help reduce volatility on customer bills given the Infrastructure Rider is an annual calculation instead of monthly like the fuel clause. This shift in recovery mechanism moves approximately $10,969,000 in 2021 test year PTCs from the fuel clause to the Infrastructure Rider. The revenue requirement associated with PTCs that will be credited to customers in the Infrastructure Rider for 2023 is estimated at $11,229,488. When combined with the 2023 project revenue requirements, this results in an estimated 2023 revenue requirement of $(520,792).

The beginning balance for the 2023 Infrastructure Rider consists of the 2022 true-up in the amount of $(2,801,561). Revenue requirements for January through June 2023, combined with the estimated under/over balance as of June 30, 2023, results in an estimated balance of $36,034. This balance is netted against the interim refund, allowing the rider to begin with a $0 balance on July 1, 2023. Remaining estimated 2023 revenue requirements, including the PTC credits, for July 2023 through December 2023 total $(2,132,416). Using forecasted sales for the same time period results in a rate of $(0.001838) per kWh to be effective July 1, 2023.

When the estimated 2023 Infrastructure Rider project revenue requirements of approximately $10.7 million are added to the revenue deficiency of approximately $3.6 million, the total increase is approximately $14.3 million. This results in a net increase of approximately 5.85%. The increases by major rate class when the 2023 Infrastructure Rider project revenue requirements are included are shown below.

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[28] These projects are included on Exhibit D, Attachment 2B under "From Rate Case K&Ms" as $0.
[29] This ongoing condition does not apply to 2023 K&M projects that were delayed.

Increases by Major Rate Class

Rate Class	Xcel Proposed[30]	Settlement without 2023 Infrastructure Rider New Projects	Settlement with 2023 Infrastructure Rider New Projects
Residential	19.66%	1.44%	5.19%
C&I Non-Demand	16.24%	1.44%	5.38%
C&I Demand	16.74%	1.44%	6.35%
Public Authorities	9.37%	1.56%	1.56%
Street Lighting	0.00%	1.44%	4.52%
Total Revenue	**17.85%**	**1.48%**	**5.85%**

The Infrastructure Rider will continue to be subject to an annual filing to be approved by the Commission. The Company may request inclusion of additional projects annually in accordance with the conditions set forth in the stipulation. Xcel will make its annual filing by September 1 of each year for rates effective January 1.

OTHER ISSUES

Planning Resource Auction (PRA) Revenues – The parties agreed to a provision on a going forward basis whereby Xcel will pass through any MISO PRA revenue credits through the Fuel Cost Recovery (FCR), beginning with the 2023-2034 planning year. The FCR rider reflects this tariff change.

Production Tax Credit (PTC) Floor – The parties agreed to a mechanism associated with establishing a baseline PTC floor for the wind portfolio of projects with in-service dates in the Test Year and beyond. The baseline PTC is equal to the PTC assumptions the Company used to justify the prudence of the projects. If the actual PTCs for the portfolio are greater than 90%, these credits will be passed through to customers. Further, if the actual PTCs are greater than 100% on a portfolio basis, these credits will also flow to customers.[31] However, if the actual PTCs for the portfolio are below 90% of the baseline PTC, then a penalty will be assessed whereby Xcel is to refund the difference in value between the 90% threshold and the actual PTCs. In order to account for weather uncertainty, the first PTC-based evaluation will occur in 2024 and be based on actual PTC performance that is tracked and considered on a cumulative three-year basis. Thereafter, the tracker balance will be compared to the 90% floor on an annual basis and a refund will be issued if the balance is below the established floor.

Nuclear Credits – The Inflation Reduction Act includes production tax credits associated with nuclear generation (see new §45U Sec. 13105). This credit is effective for production during 2024-2032 and is dependent on wholesale market prices. The parties agreed that Xcel will pass through any nuclear production tax credits earned by the Company, via the FCR. Xcel shall submit a filing to pass these credits to customers within 90 days of having received the credits.

[30] Exhibit___(NNP-1), Schedule 2

[31] The PTC assumptions used to justify the projects are based on expected capacity factor, which assumes a 50/50 forecast. That is, a forecast probability of 50%. Given this probability, it is feasible to exceed 100% of the PTC threshold.

Good Neighbor Plan – On March 15, 2023, the U.S. Environmental Protection Agency (EPA) issued its final Good Neighbor Plan. The parties agree Xcel may file a petition requesting recovery of the costs of complying with this rule through the FCR.

Property Taxes – The Parties agree the incremental property tax above the amount included in base rates will flow through the fuel clause, as allowed by SDCL 49-34A-25 and as approved in the last rate case.

Rate Moratorium – The Parties agree that Xcel shall not file any rate application for an increase in base rates which would go into effect prior to January 1, 2026.

Implementation of Rates – The tariffs shown on Exhibit A attached to the Settlement Stipulation are proposed to be implemented for service rendered on or after July 1, 2023. Customer bills will be prorated so that usage prior to that date is billed at the interim rates and usage on and after that date is billed at the new rates.

Interim Rate Refund – Interim rates were implemented on January 1, 2023. Approval of the Settlement Stipulation will authorize a rate increase less than the interim rate level. The Company agreed to refund customers the difference between interim rates and new rates collected, during the period January 1 through June 30, 2023. As part of the refund, Xcel will include interest, calculated by applying 7% annual interest to the average refund balance for each month that interim revenues were collected. Attached to the Settlement Stipulation is the Company's Interim Refund Plan. As mentioned above, the interim rate refund includes a netting of the Infrastructure Rider revenue requirements for January – June 2023.

RECOMMENDATION

The Commission is the state entity that has been tasked by the legislature under SDCL Chapter 49-34A, to regulate utility companies in the state. This regulation includes determining just and reasonable rates under SDCL 49-34A-6, for Xcel and the other five investor-owned utility companies providing electric service in the state. The Commission is also required under SDCL 49-34A-8 to "give due consideration to the public need for adequate, efficient, economical, and reasonable service and to the need of the public utility for revenues sufficient to enable it to meet its total current cost of furnishing such service, including taxes and interest, and including adequate provision for depreciation of its utility property used and necessary in rendering service to the public, and to earn a fair and reasonable return upon the value of its property."

After reviewing the filing, Staff believes the settlement finds a balance between providing Xcel with an increase they are eligible for under the law in order to provide safe and reliable electric service, along with a reasonable profit and ensures customers are not being charged unfair or excessive rates.

The settlement includes many specific benefits to South Dakota customers. Significantly, the settlement allows for a much lower increase of customer rates than was initially requested by Xcel. This, along with the associated refund plan, provides for a portion of interim rates to be refunded to customers, with interest, and moving forward, establishes a more reasonable rate increase for customers. The settlement does allow recovery of numerous projects and costs Xcel has incurred to provide adequate and efficient service to customers in the state, which is a direct benefit to customers. However, the settlement also provides customers with benefits from certain credits available to Xcel, such as production tax credits related to wind and nuclear generation. The settlement also provides for a moratorium on additional base rate increases that prevents Xcel from requesting an increase to base rates that would be effective prior to January 1, 2026. This moratorium ensures base rate stability to customers over the next few years and encourages Xcel to make prudent decisions in the operation of the company because they cannot ask for additional base rate increases for a number of years. A necessary component of the settlement that allowed the Company to agree to a moratorium is the continuance of the Infrastructure Rider. The moratorium, in conjunction with the Infrastructure Rider, reduces frequent base rate filings, thus reducing rate case expenses that would likely be passed onto customers.

Staff recommends the Commission approve the settlement for the reasons stated in this memo.