
STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS
FROM: PATRICK STEFFENSEN AND AMANDA REISS
RE: EL23-026 - In the Matter of the Petition of Northern States Power Company dba Xcel Energy for Approval of its 2024 Transmission Cost Recovery Eligibility and Rate Adjustment
DATE: November 15, 2023

BACKGROUND

On September 1, 2023, 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 2024. The filing also requested approval of the 2023 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 EL22-022, the Commission approved TCR recovery of the 2023 revenue requirement associated with ten previously approved transmission projects, ten new transmission projects, and MISO Schedule 26 expenses. Also, 20 previously approved projects were moved to base rate recovery in Docket EL22-017.

¹ Midcontinent Independent System Operator, Inc.

Xcel proposes to include four new projects in this docket for 2024. The proposed 2024 revenue requirement results in a rate of \$0.000205 per kWh, calculated based on an effective date of January 1, 2024. This represents an increase of \$0.000594 per kWh from the existing rate.

STAFF ANALYSIS

Analysis of Updated Projects

On pages 3 through 6 of Attachment 1, Xcel discusses the previously approved projects that have had changes to their scope and any significant variances in capital cost forecast compared to the forecasts in EL22-022. Each year, Xcel identifies, budgets for, and develops specific projects during its budget process and based on the health score of its transmission lines as determined by the Line Prioritization Matrix. As health scores and projects change from year to year, these projects may get reprioritized, causing delays in projects or shifts into other seasons. Other times projects are sequenced in a way that is least disruptive to agricultural activities in the area. These timeline shifts, along with other obstacles like hard rock drilling and unfavorable weather conditions, can all result in forecast changes from one year to the next.

Analysis of New Projects

Brookings Second Circuit

The CapX Brookings Second Circuit project consists of installing separate second 345 kV circuits on the 59.5-mile segment between Xcel's Brookings County Substation near Brookings, South Dakota and Xcel's Lyon County Substation near Marshall, Minnesota and the 39-mile segment between Xcel's Helena Substation near New Prague, Minnesota and Xcel's Hampton Substation near Hampton, Minnesota. The segment between the Lyon County Substation and Helena Substation was originally constructed with the second circuit already installed, and the rest of the line was constructed with the capacity to allow a second circuit at a future date.

This project was vetted by MISO as a local reliability project in its annual Transmission Expansion Plan (MTEP22) report and is aimed at reducing energy costs by addressing one of the most congested areas in Minnesota. Xcel states this project will relieve congestion and increase access to low-cost, renewable generation, thus supporting wind generation facilities in Minnesota, North Dakota, and South Dakota.

Xcel plans to place the Brookings County Substation to Lyon County Substation segment in service by September 1, 2024, and the Helena Substation to Hampton Substation segment by September 15, 2025. Xcel states this timeline will help customers realize the economic benefits of the project more quickly and allow the project to provide outage support during the construction of the Long-Range Transmission Plan projects currently under development.

Xcel has recently filed for a Certificate of Need and a Minor Route Alteration Permit in Minnesota and an Advance Determination of Prudence in North Dakota. The CapX Brookings transmission line was granted a permit by the Commission in docket EL10-016, with the permit approving a second circuit on the South

Dakota portion of the line, therefore no additional South Dakota permit is required for this project. However, Xcel states it plans to file a certification in South Dakota under SDCL 49-41B-27 by the end of the year, because four years have passed since the permit was initially issued.

Line 0708 Rebuild: Eagle Lake to Waterville

The Eagle Lake to Waterville project satisfies statute requirements as a rebuild of 18.6 miles of existing 69 kV transmission line. The existing line was originally built in 1949 and runs between Great River Energy’s Eagle Lake Substation and Xcel’s Waterville Substation. This line has no record of being rebuilt, and the existing poles and crossarms are decayed. Also, the frame design is prone to galloping and lightning flashovers, increasing the risk for outages. Xcel confirms that the line will be rebuilt to the Company’s current design standard, and that it will be eligible for the Open Access Transmission Tariff (OATT) once it is placed in-service in approximately 2026.

Line 0736 Rebuild: Arden Hills to Lawrence Creek

The Arden Hills to Lawrence Creek project satisfies statute requirements as a rebuild of 30.3 miles of existing 69 kV transmission line. The existing line is approximately 70 years old and consists of three contiguous line segments as shown on Attachment 18-2. This line has no record of being rebuilt, the existing poles are showing signs of decay, and the line has a history of copper wire breakage. Xcel states that the line will be rebuilt to a higher capacity and confirms that it will be eligible for the OATT once it is placed in-service in approximately June 2025.

Line 0822 Rebuild: STR 107 to Empire

The STR 107 to Empire project satisfies statute requirements as a rebuild of 7.1 miles of existing 115 kV transmission line. The existing line is 83 years old and runs between Xcel’s Rosemount Substation and Xcel’s Empire Substation. This line has no record of being rebuilt, and the existing poles, crossarms, braces, and insulators are decayed and at the end of their useful lives. Xcel confirms that it will be eligible for the OATT once it is placed in-service in approximately September 2025.

2023 TRACKER REPORT

The rate approved in Docket EL22-022 was based on the balance in the tracker account and the 2023 estimated revenue requirements. In this docket, Staff reviewed the revised 2023 revenue requirement to determine if the costs were prudent and at the lowest reasonable cost to ratepayers. Xcel states in its petition it analyzes up to a dozen project alternatives for a given project, uses a competitive bidding process, and has developed a standard design for collector stations to minimize design and engineering costs.

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 2023. Individual project detail for the projects is found on Attachment 12.

2024 TCR REVENUE REQUIREMENT

The total estimated 2024 revenue requirement of \$456,349, subject to later true-up to actual costs and recoveries, is based on the 2023 under-collection in the tracker account and the estimated 2024 revenue requirement associated with the 24 transmission projects and MISO Schedule 26 revenue and expenses. This represents an increase from the 2023 revenue requirement amount of approximately \$1.3 million.

The 2024 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 2024 rider balance calculations to reflect the cost of debt and capital structure at December 31, 2023 levels.

2024 TCR RATE

The TCR rate is designed to be implemented effective January 1, 2024, and is calculated based on forecasted sales from January 2024 through December 2024. The TCR rate, effective January 1, 2024, is \$0.000205 per kWh and represents an increase of \$0.000594 per kWh from the existing rate.

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 2023 tracker report, the forecasted 2024 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 2024 revenue requirements and updated TCR rate of \$0.000205 per kWh, with an effective date of January 1, 2024.