
STAFF MEMORANDUM

TO: COMMISSIONERS AND ADVISORS
FROM: PATRICK STEFFENSEN AND AMANDA REISS
RE: EL22-022 - In the Matter of the Petition of Northern States Power Company dba Xcel Energy for Approval of its 2023 Transmission Cost Recovery Eligibility and Rate Adjustment
DATE: December 1, 2022

BACKGROUND

On September 1, 2022, 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 2023. The filing also requested approval of the 2022 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 EL21-025, the Commission approved TCR recovery of the 2022 revenue requirement associated with 21 previously approved transmission projects, ten new transmission projects, and MISO Schedule 26 expenses.

¹ Midcontinent Independent System Operator, Inc.

Xcel proposes to include ten new projects in this docket for 2023 and move 20 previously approved projects to base rate recovery in Docket EL22-017. The Line 0723 Cosmos to Lake Lillian 69kV Rebuild project and Line 0723 Bird Island to Lake Lillian 69kV Rebuild project have been combined into one project, the Line 0723 Bird Island to Atwater 69kV Rebuild project, leaving 20 projects remaining in the TCR². The result of moving the 20 projects to base rate recovery is a negative 2023 TCR revenue requirement, resulting in a rate of negative \$0.000389 per kWh, calculated based on an effective date of January 1, 2023. This represents a decrease of \$0.003634 per kWh from the existing rate.

STAFF ANALYSIS

Analysis of Updated Projects

The following rebuild projects had line segments approved in Docket EL20-025 and Docket EL21-025, and Xcel is requesting to add the remaining line segments for each project in this filing.

Bird Island to Atwater

The Bird Island to Atwater project is a rebuild of a 1953 vintage 69 kV transmission line that runs approximately 38 miles between Xcel's Bird Island Substation and Great River Energy's Atwater Tap in west central Minnesota. This project includes the rebuild of three individual and contiguous line segments, with the Bird Island to Lake Lillian and Cosmos to Lake Lillian segments approved last year in Docket EL21-025. Xcel is requesting to update this project to include the third and final segment of the project, the Atwater to Cosmos segment.

Dassel to Delano

The Dassel to Delano project is a rebuild of a 1930 vintage 69 kV transmission line that runs approximately 48 miles between Great River Energy's Big Swan Substation and Xcel's Delano Substation in west central Minnesota. This project includes the rebuild of seven individual and contiguous line segments, with the Dassel to Cokato segment approved last year in Docket EL21-025. Xcel is requesting to update this project to include the other six segments.

Freeport to West St. Cloud

The Freeport to West St. Cloud project is a 63-year-old 69 kV transmission line running approximately 25 miles from St. Joseph, Minnesota to Freeport, Minnesota. This project includes the rebuild of nine individual and contiguous line segments, with the Avon to Albany segment approved for inclusion in the TCR in Docket EL20-025 and the Avon to Brockway Tap and St. John's to Watab segments approved in Docket EL21-025. Xcel is requesting rider recovery of the remaining six segments of this project and has included these six segments as one of the ten new rebuild projects described below.

² See attachment for a complete list of projects

In response to discovery, Xcel has provided updated maps of each of these three updated projects showing each of the individual line segments. These maps are included as an attachment to this Staff Memorandum.

Analysis of New Projects

Line Rebuild Projects

Xcel performs regular foot patrols, ground line inspections, and drone inspections on its transmission facilities to assess the status of its transmission lines. Until recently, Xcel had been able to maintain the majority of its assets through either O&M repairs, replacement of specific components when they are at the end of their service life, or refurbishment projects that extend the life of the assets. Recently, the inspections are revealing that lines that were previously refurbished are in need of replacement due to the cumulative condition of the poles, cross-arms, insulators, and conductor, as well as lines where the general composition (i.e. conductor type, framing, and pole sizes) would not safely allow for refurbishments. As a result, Xcel indicates there is a need to increase its investments in rebuild projects.

The following ten projects are part of the annual MISO Transmission Expansion Plan (MTEP) filing and have been identified as rebuild projects that are necessary at this time: Huntley to South Bend, Watonwan to Madelia, Line 0717/0771 Thru Flow Mitigation, Pipestone to Rock River to Woodstock, Big Swan to Atwater, Waseca to ITC Tap, Linn Street to Becker, Westgate to Gleason Lake, Freeport to West St. Cloud (six segments new for 2023), and Inver Hills to Chemolite. The Huntley to South Bend project is 161 kV, the Inver Hills to Chemolite project is 115 kV, and the eight remaining rebuild projects are 69 kV, thus all meeting the 34.5 kV statutory capacity requirement.

The rebuild projects are all between 6.9 miles to 31.5 miles of contiguous expanses of line segments and were originally built between the early 1950s and early 1960s. Each of the rebuild projects has been identified as necessary due to reliability concerns given the age and condition of the lines. The lines consist of direct-embedded cedar poles with signs of insulator deterioration, cross-arm physical decay, and failure-prone conductor. Each of the lines is vital to the system, as it serves Xcel's and other utilities' distribution loads in the area. Thus, Xcel has determined it is imprudent to continue replacing single structures due to the number of structures past their useful life and currently needing replacement. Once replaced, Xcel customers will see the benefit of enhanced reliability, and the new conductor will provide the benefit of higher capacity.

2022 TRACKER REPORT

The rate approved in Docket EL21-025 was based on the balance in the tracker account and the 2022 estimated revenue requirements. In this docket, Staff reviewed the revised 2022 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 2022. Individual project detail for the projects is found on Attachment 12.

2023 TCR REVENUE REQUIREMENT

The total estimated 2023 revenue requirement of negative \$849,618, subject to later true-up to actual costs and recoveries, is based on the 2022 over-collection in the tracker account and the estimated 2023 revenue requirement associated with the 20 transmission projects and MISO Schedule 26 revenue and expenses. This represents a substantial decrease from the 2022 revenue requirement amount of approximately \$6.8 million, as Xcel is proposing to roll-in approximately \$8 million of transmission recovery into base rates in the current rate case proceeding, Docket EL22-017.

The 2023 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 2023 rider balance calculations to reflect the cost of debt and capital structure at December 31, 2022 levels and the return on equity approved in rate case Docket EL22-017.

2023 TCR RATE

The TCR rate is designed to be implemented effective January 1, 2023 and is calculated based on forecasted sales from January 2023 through December 2023. The TCR rate, effective January 1, 2023, is negative \$0.000389 per kWh and represents a decrease of \$0.003634 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 2022 tracker report, the forecasted 2023 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 2023 revenue requirements and updated TCR rate of negative \$0.000389 per kWh, with an effective date of January 1, 2023.