Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: December 19**,** 2013 .... Agenda Item # _****8**____

Company: Northern States Power MN d/b/a Xcel Energy

Docket No. E-002/M-12-50

In the Matter of Xcel Energy's Petition for Approval of 2012 Transmission Cost Recovery (TCR), Project Eligibility, TCR Rate Factors, and 2011 True-up

Issues: Should the Commission approve Xcel Energy's Petition for Approval of 2012 TCR Project Eligibility, TCR Rate Factors and True-Up for 2011?

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Relevant Documents

Xcel Energy Initial Filing ....January 13, 2012
DOC Comments...June 13, 2012
Xcel Energy Reply Comments .... August 31, 2012
DOC Response Comments...November 1, 2012
Xcel Supplement (Corrected)...October 31, 2013

The attached materials are workpapers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless otherwise noted.

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December 12, 2013

Statement of the Issue

Should the Commission approve Xcel Energy's Petition for Approval of 2012 TCR Project Eligibility, TCR Rate Factors and 2011 True-Up Report?

Relevant Statutes & Rules

The relevant statutes in this petition are Minnesota Statute §216B.16, subd.1 and subd. 7b, Minnesota Statute §216B.1645 and Minnesota Rule 7829.1300.

Background

In 1997, the Minnesota Legislature enacted the Renewable Energy Statute, which authorized the Commission to approve a tariff mechanism for an automatic annual adjustment of charges for costs associated with utility investments or costs to comply with renewable energy mandates.

The 2005 Legislature enacted the Transmission Statute which authorized the Commission to approve a tariff mechanism for an automatic adjustment of charges for costs associated with eligible utility investments in transmission facilities. The statute was amended in 2008 to allow inclusion of the costs of regional transmission facilities determined by the Midwest ISO to benefit the Company, as provided for under a federally approved tariff.

The Commission's November 20, 2006 Order (Docket No. E-002/M-06-1103) approved the Company's new Transmission Cost Recovery (TCR) Rider tariff and combined recovery of eligible projects in both the Renewable Statute and the Transmission Statute under one annual automatic adjustment mechanism, the TCR Rider. The Commission required Xcel to maintain separate tracker accounts for each project and type of cost recovery requested by the Company.

The Company's TCR Rider tariff has been modified twice since 2006 to allow recovery of additional costs subsequently authorized by the Minnesota Legislature. First, the Commission's March 20, 2008 Order (Docket No. E-002/M-07-1156) approved recovery of greenhouse gas infrastructure costs incurred for the replacement of circuit breakers that contain sulfur hexafluoride ("SF6"), as allowed under Minn. Stat. 216B.1637.

Second, as allowed under the Transmission Statute, the Commission's June 25, 2009 Order (Docket No. E-002/M-08-1284) approved recovery of Midwest ISO Regional Expansion Criteria and Benefits (RECB) revenues and costs invoiced to the Company by Midwest ISO under Schedule 26 or Schedule 26A of the MISO Tariff related to other MISO transmission owners' regionally-planned transmission projects.

Filings in this Docket

On January 13, 2012, Xcel filed its request that the Commission: (1) approve the 2012 revenue requirements of $29.6 million for all projects deemed eligible for Transmission Cost Recovery ("TCR") Rider recovery; (2) approve the eligibility of the Pleasant Valley – Byron 161 kV line, the CapX2020 Brookings - Twin Cities 345 kV project ("Brookings Project"), costs associated with Buffalo Ridge Restoration Project, and costs associated with the Glencoe – Waconia 115 kV transmission project for recovery in the 2012 TCR Rider; (3) accept the 2011 TCR True-Up and Tracker Balance report; and (4) approve the proposed 2012 TCR rate adjustment factors to be included in the Resource Adjustment on customer bills for electric customers in Minnesota.

On June 13, 2012, the Department filed comments recommending recovery of the CapX Brookings, Pleasant Valley-Byron, and Glencoe-Waconia lines but raised issues about the recovery of the Buffalo Ridge Restoration Project in the rider and the cost cap for the Bemidji Project. The Department also recommended denial of recovery of capitalized internal costs.

On August 31, 2012, Xcel filed reply comments arguing that the Buffalo Ridge Restoration Project can be recovered thorough the rider, no cost caps should be applied and that recovery of capitalized internal costs should be allowed in the rider.

On November 1, 2012, the Department filed comments recommending that the Commission approve Xcel's petition with the following modifications:

- Accept Xcel's proposed cost escalator for the Bemidji Project, which increases the cost recovery cap for this project from $66.2 million to $74 million, or by $8.2 million.

- Deny Xcel's proposal to recover costs associated with the Bemidji Project that are over the inflation-adjusted cap of $74 million. Such costs can be requested for recovery in a subsequent rate case.

- Deny Xcel's proposal to recover internal capitalized costs amounting to $1.5 million in annual revenue requirements in its 2012 TCR Rider.

Party Positions

1. New Transmission Statue Projects

Xcel

The Company requested 2012 cost recovery of three new projects under Minn. Stat. §216B.16, subd. 7b (a) which provides:

> Notwithstanding any other provision of this chapter, the commission may approve a tariff mechanism for the automatic annual adjustment of charges for the Minnesota jurisdictional costs of new transmission facilities that have been separately filed and reviewed and approved by the commission under section §216B.243 or are certified as a priority project or deemed to be a priority transmission project under section 216B.2425.

A. Brookings – Twin Cities 345kV Project

Xcel stated that a certificate of need was granted by the Commission for the CapX2020 Brookings 345 kV transmission line project on May 22, 2009. The Commission did not allow cost recovery of the Brookings project in the 2010 & 2011 TCR Riders due to the uncertainty regarding cost allocation among transmission users under the MISO Tariff.

According to the Company, there have been two new developments since the Commission issued its 2011 Order that make cost recovery possible. First, FERC has issued its order on rehearing upholding the prior decision approving the Midwest ISO Multi-Value Projects (MVP) tariff. Second, The Midwest ISO Board approved the initial portfolio of MVP projects for regional cost allocation, including the Brookings Project. This action moved the conditional approval granted the Brookings Project in June of 2011 to final approval.

The Company stated it believes the approval of the project makes it eligible for TCR cost recovery. In January 2012, the Brookings Project construction agreements were signed allowing for construction to start in the spring of 2012. Xcel stated in its filing that significant construction is expected to occur during 2012. The Company's share of the Brookings project is expected to reach approximately $126 million by the end of 2012. The 2012 TCR revenue requirement is $6.5 million.

Because the uncertainty regarding MISO cost allocation for the Brookings Project cited in the Commission's 2010 and 2011 TCR Orders has been resolved, Xcel requested that the Commission find the Brookings Project eligible for recovery in the TCR Rider.

B. Pleasant Valley - Byron 161 kV Transmission Line

The Company requested Commission approval of cost recovery for the Pleasant Valley 161 kV project, which received a Certificate of Need (CN) from the Commission on February 28, 2011 in Docket No. E-002/CN-08-992. According to Xcel the transmission line was needed to enable two wind farms to deliver energy without operating restrictions and to help close the gap in wind outlet transmission capability in 2012 that was identified in the 2007 Minnesota Transmission Owners Biennial Report.

Xcel stated the proposed facility received approval of a CN so the project is now eligible for cost recovery through the TCR. The Company is seeking TCR recovery of approximately $356,000 in project revenue requirements for 2012. The rider recovery amount is reduced by $123,000 in revenue requirement which is being recovered in base rates.

C. Glencoe – Waconia 115 kV Upgrades

The Glencoe – Waconia project entails construction of approximately 2 miles of new 69 kV transmission line, 6 miles of new 115 kV transmission line, and upgrading approximately 20 miles of 69 kV transmission line to 115 kV capacity. The project is located near the cities of

Glencoe, Norwood Young America, and Waconia along with certain substation modifications located in the southwest metro area of the Twin Cities.

The Southwest Twin Cities Load Serving Study Review identified the need for transmission upgrades in the Glencoe – Waconia area to prevent significant low voltage and line overload conditions. The Commission granted a Certificate of Need for this project on November 14, 2011 (Docket No. E-002/CN-09-1390). The Company is seeking TCR recovery of approximately $688,000 in project revenue requirements for 2012. Approximately $56,500 of this amount is being recovered in base rates and is deducted from Rider recovery.

Department

The DOC agreed that the Brookings project is now eligible for cost recovery under the TCR Rider and the amount is reasonable to include in the TRC Rider.

The DOC also agreed that the Pleasant Valley – Byron and the Glencoe – Waconia projects qualify for recovery under the TCR statute. The Department further supported the $123,000 deduction of the revenue requirement for Pleasant Valley – Byron and the $56,500 deduction of the revenue requirement for Glencoe – Waconia to remove the portion of the project costs that are currently being recovered in base rates.

Staff Analysis

Staff agrees that it is reasonable to include these projects in the rider. The proposed adjustments to the revenue requirement are necessary to prevent double recovery of the costs, once in base rate and again in the rider. Therefore, the adjustments should be allowed.

2. New Renewable Statute Project

Buffalo Ridge Restoration Project (Storm Repair Costs)

Xcel

The Buffalo Ridge restoration project reconstructed 64 miles of 115 kV line and 30 miles of 34.5 kV wind feeder collector facilities in Southwestern Minnesota after they were destroyed by severe storms on July 1, 2011. The Company stated it incurred approximately $38 million in unanticipated 2011 transmission investment to restore these transmission facilities. According to the Company, these transmission restoration costs were not included in the test year in the 2011 electric rate case, therefore it is seeking to recover approximately $3.9 million of revenue requirements in the 2012 TCR.

The Company stated that the cost of the facilities that were damaged and removed was included in transmission rate base in the 2011 test year. Because of this, a credit of approximately $350,000 for the Minnesota jurisdiction will be made to the TCR revenue requirements in order to account for the revenue requirements included in base rates for the facilities that were removed. This credit will only be needed until the cost of the previous facilities can be retired from the Company's books and taken out of base rates.

Xcel stated the restored lines include the core portion of the transmission system that allowed for connection of two of the three Buffalo Ridge Incremental Generation Outlet ("BRIGO") 115 kV facilities. According to Xcel, the damage to the wind collection feeders directly affected approximately 350 MW of wind generation, making it impossible for this generation to be delivered to the Company's transmission system. The damage to the 115 kV transmission line significantly affected the reliability of transmission service to approximately 1200 MW of wind generation in the Buffalo Ridge area because this critical component of the transmission network in the area was out of service.

Because restoration of the 115 kV lines and the 34.5 kV collector feeders was needed for renewable wind energy to be delivered from generators on the Buffalo Ridge to the Company's load centers, the Company argued that the Commission should determine these costs are eligible for TCR Rider recovery under Minnesota Statutes § 216B.1645, the Environmental Cost Recovery ("ECR") statute. The Company stated that the eligibility criteria for renewable energy projects are established in the Renewable Statute, Minn. Stat. § 216B.1645, Subdivision 1, which states that:

> Upon the petition of a public utility, the Public Utilities Commission shall approve or disapprove power purchase contracts, investments, or expenditures entered into or made by the utility to satisfy the wind and biomass mandates contained in sections 216B.169, 216B.2423, and 216B.2424, and to satisfy the renewable energy objectives set forth in section 216B.1691, including reasonable investments and expenditures made to transmit the electricity generated from sources developed under those sections that is ultimately used to provide service to the utility's retail customers, including studies necessary to identify new transmission facilities needed to transmit electricity to Minnesota retail customers from generation facilities constructed to satisfy the renewable energy objectives, provided that the costs of the studies have not been recovered previously under existing tariffs and the utility has filed an application for a certificate of need or for certification as a priority project under section 216B.2425 for the new transmission facilities identified in the studies; or develop renewable energy sources from the account required in section 116C.779.

Subdivision 2 addresses cost recovery and states in part:

> …Upon petition by a public utility, the commission shall approve or approve as modified a rate schedule providing for the automatic adjustment of charges to recover the expenses or costs approved by the commission, which, in the case of transmission expenditures, are limited to the portion of actual transmission costs that are directly allocable to the need to transmit power from the renewable sources of energy. The commission may not approve recovery of the costs for that

> portion of the power generated from sources governed by this section that the utility sells into the wholesale market…

DOC

The Department stated that storm repair costs can either be capitalized and/or expensed (based on review of capital versus expense criteria) in a test year. In this case, the Department concluded that the costs in question are capital costs and were not included in the 2011 test year (with the exception of internal capitalized costs).

The Department asked Xcel if any repairs to existing transmission facilities qualify for recovery under the TCR Rider and, if so, whether the costs of repairs to any part of the transmission system, including facilities that have never been included in the TCR, qualify for cost recovery under the TCR Rider. Xcel responded that:

> The Renewable Statute does not specifically limit the type of costs (e.g., initial capital expenditure costs or "repair" costs). The statute simply refers to "actual costs." The Company is only seeking recovery of the Minnesota jurisdictional portion of its actual restoration costs.
>
> The Company does not believe that costs on "any part of the transmission system" would be eligible for recovery. The costs would need to be related to delivery of renewable energy, as required by the Renewable Statute. In this instance, the facilities reconstructed were either 34.5 kV collection feeders directly connecting the wind generation to the high voltage transmission system, or 115 kV facilities in the Buffalo Ridge area.
>
> Major capital transmission replacement projects qualify for Renewable Statute project treatment and recovery under the TCR Rider when those major capital transmission projects are needed to transmit power from renewable sources of energy to allow the Company to meet its renewable energy mandates. The Commission recognized that view in its Order approving the Certificate of Need for the 825 Wind Upgrade project. Several of the projects approved in that CON order were upgrades to or replacements of existing transmission facilities. The Commission affirmed that the Company's request was based on the fact that "the lines are needed to meet a transmission deficit that is preventing the development of wind energy in Minnesota, thereby frustrating state policies requiring Minnesota utilities in general, and Xcel [Energy] in particular, to rely more heavily on wind generation." Just as the 825 Wind Upgrade project facilities were needed to resolve a transmission deliverability deficit preventing the Company from increasing its use of wind generation, the storm of July 1, 2011 damaged the transmission facilities on the Buffalo Ridge such that there was again a deficiency in transmission delivery capability for wind generation. The Buffalo Ridge Restoration project solved that deficiency.

> Without the prompt major capital transmission repair undertaken in the Buffalo Ridge Restoration project, the wind generation on the Buffalo Ridge that is already developed could not continue to be used to meet the state's renewable energy mandates. Thus the Buffalo Ridge Restoration project costs were necessary to comply with the state's renewable energy mandates. In addition, the Company could have been subject to significant curtailment payments under its PPAs, affecting rates through the fuel clause adjustment.

The Department reviewed Xcel's response and noted that the Company stated: "No direct facilities from the BRIGO project were damaged by the storm of July 1, 2011, so the Buffalo Ridge Restoration Project does not include repair of any of those BRIGO facilities directly." The facilities that were repaired are not those that were approved in the certificate of need for the BRIGO lines, Docket No. E-002/CN-06-154.

The Department agreed that the RCR Statue refers to costs of transmitting power and may appear not to limit the types of costs available for recovery. However, the purpose of the statute was to encourage utilities to make specific investments in **new** infrastructure that had been previously approved by the Commission to meet the wind, biomass or renewable mandates. Consistent with the goal of building new infrastructure, Minn. Stat. §216B.1645, subd. 2a includes a requirement for pre-certification by the Commission.

Pre-certification is consistent with the goal of the statute to encourage utilities to build new infrastructure needed to meet the wind mandate, biomass mandate, or renewable energy objective, that has been approved by the Commission as being eligible for recovery prior to when the utility requests recovery of the costs. Xcel did not request eligibility of the costs prior to filing the current request for cost recovery.

The Department stated that the Company appears to agree that the Buffalo Ridge Project would not be eligible for recovery under Minn. Stat. §216B.16 subd. 7(b) (TCR), but argued that the project qualifies under the renewable statute, Minn. Stat. §216B.1645, subd 2a. As discussed above, Xcel argues that because the transmission assets included in the Buffalo Ridge Project are necessary to deliver renewable energy, the Buffalo Ridge Project qualifies as a facility "constructed, owned, or operated by a utility to satisfy the requirements of section 216B.1691."

The Department argued that Xcel applied a very broad interpretation of the type of project eligible for cost recovery under the statute. Indeed, nearly all transmission facilities can be said to deliver energy, and thus at least some of the energy is likely to be renewable. Clearly, not all transmission investments could qualify for recovery under the renewable rider; thus it is appropriate to consider what type of transmission investments would qualify for recovery under the renewable rider.

The Department noted that new transmission facilities (as opposed to rebuilding existing facilities) regardless of how much renewable energy they actually deliver, are eligible for rider cost recovery under §216B.16 subd. 7(b). Further, reasonable investments in utility infrastructure are allowed in base rates when a utility files a rate case. Thus, the question is whether Minn. Stat.

§216B.1645 allows cost recovery *in a rider* when the Company makes transmission investments in facilities that are not new, but that deliver renewable energy by virtue of being interconnected to a utility system that includes renewable energy.

Minn. Stat. §216B.1645, subd 2a, allows for recovery of "prudently incurred investments, expenses, or costs associated with facilities constructed, owned, or operated by a utility to satisfy the requirements of section 216B.1691."

Minn. Stat. §216B.1691, subd. 2a (b) states, in part, that:

> An electric utility subject to this paragraph *must generate or procure sufficient electricity generated by an eligible energy technology* . . . [Emphasis Added]

Further, "eligible energy technology" is defined by statute as:

> …an energy technology that generates electricity from the following renewable energy sources . . .

According to the Department, the definition of "eligible energy technology" is limited by Minn. Stat. §216B.1691 to generation facilities. Thus, the Department concluded that a reasonable interpretation of the type of facilities contemplated by Minn. Stat. §216B.1645, subd. 2a, is also limited to generation facilities. As generation, not transmission, produces renewable energy, the Department concluded that is reasonable to exclude transmission costs from recovery under Minn. Stat. §216B.1645, subd 2a.

The Department stated that based on its interpretation of Minn. Stats. §216B.1691 and §216B.1645, utilities can request cost recovery of any renewable generation investment to meet the RES that has been determined by the Commission to be eligible for rider cost recovery as well as any such investment in new transmission facilities. It is only repair or maintenance costs associated with existing transmission that the Department concludes should not be eligible for rider recovery. That interpretation is reflected in the statutory requirement for determination under the certificate of need statute or similar proceeding.

The Department noted that one of the policy reasons for the creation of the renewable and transmission riders was to provide an incentive for utilities to make those new investments. Minn. Stat. §216B.04 requires utilities to provide "safe, adequate, efficient and reasonable service." Clearly, making repairs and performing maintenance to existing transmission infrastructure is necessary to meet that statutory obligation and does not warrant special ratemaking treatment in a rider.

The Department recommended that the Commission not allow TCR Rider recovery of the costs (approximately $3.9 million of 2012 revenue requirements) associated with the 2011 Buffalo Ridge Restoration Project.

Xcel

Xcel stated it believes the Buffalo Ridge restoration project falls squarely within the requirements under the RCR (Renewable Cost Recovery) Statute and thus is eligible for recovery under the TCR Rider. The Company believes that because the statute permits recovery and because its rapid response to these extraordinary circumstances fulfilled the objectives of the statute, rider recovery is appropriate both from a legal and policy perspective.

In reply to the Department comments which assert that the Buffalo Ridge Restoration project is not eligible for recovery under the TCR Rider, the Company responded:

First, the purpose of the RCR Statute is to encourage utilities to make investments in infrastructure to meet the wind, biomass, and renewable mandates. The RCR Statute specifically allows recovery of "investments and expenditures…to transmit electricity" if directly related to the transmission of that renewable energy. The costs it is seeking to recover are directly related to transmission of renewable wind energy from Buffalo Ridge to its customers.

Second, the RCR Statute does not limit recovery of investments to new projects. In this case the Company is not talking about the replacement of a few poles or a small section of line, but rather an extensive rebuild & upgrade of nearly 100 miles of facilities.

Third, the RCR Statute also does not limit recovery to only generation facilities. If the Legislature had intended to limit rider recovery to generation facilities, it could have modified the RCR Statute when it adopted the TCR Statute.

Fourth, granting approval of recovery under the RCR Statute in this instance will not, as the Department asserts, provide a means to assert that the costs of any transmission line restoration on our system is recoverable because any line arguably can be considered to transmit some level of renewable energy.

Fifth, with respect to the question of whether the projects eligible under the RCR Statute require pre-certification, the Company's Petition included both a request for (a) an eligibility determination, and (b) approval for TCR Rider recovery. In 2006, the Company proposed, and the Commission approved, a TCR Rider process that included both the eligibility determination and the rate recovery calculation in a single filing.

The Company stated it used this process previously when it sought TCR Rider recovery of two new RES Statute projects (the Blue Lake/Wilmarth 345 kV Reconstruction project and the Nobles Wind Farm Network Upgrades project) under the RCR Statute in Docket No. E002/M-09-1048.

Xcel argued that its exercise of the *force majeure* provisions of their wind PPAs, provides additional evidence that the 34.5 kV facilities meet the statutory standard. After the July 1, 2011 storm damage, the Company sent *force majeure* notices pursuant to the terms of its wind PPAs, because the Company knew it would be unable to take delivery of the wind production connected to the collector systems. Xcel stated that *force majeure* is a difficult standard to meet contractually, and the fact that the Company's exercise of the provision was not challenged during the reconstruction period underscores both that the 34.5 kV facilities were required to deliver wind to market and that they were not re-installed as part of a normal maintenance project.

The Company stated it believes the Buffalo Ridge Restoration Project costs are consistent with the overall Legislative intent to promote investment in Minnesota's transmission system in order to facilitate delivery of renewable generation, and the project costs meet the requirements of the RCR Statute. As referenced above, the TCR Rider tariff incorporates recoveries under the RCR statute. As such, the Commission should find these costs are eligible for recovery under the TCR Rider.

Department

The Department reviewed Xcel's reply comments and the accompanying information. The Department also met with Xcel to discuss their comments. Based on the Department's review and discussions with the Company, the Department stated it agrees with Xcel on points on points 1, 3, and 5 (above in Xcel reply comments).

The Department stated it is now in agreement with Xcel that the RCR statute allows for recovery of transmission costs directly allocable to transmitting electricity generated from a project needed to meet the requirement of the RES. Clearly, in this case, the 34.5 kV collector system is needed to transmit the output of specific renewable generators to the transmission system, and those costs should be included.

On a similar note, the Department agreed that the storm damage caused to the 115 kV transmission facilities also impaired the delivery of wind energy. According to the Company almost all of the wind energy produced in this region was undeliverable to load. In addition, the Company was required to exercise several force majeure provisions under its wind purchase power agreements, a standard that is not easily met. As a result, the Department agreed that Xcel's capital repairs to the 115 kV facilities qualify for cost recovery under the RCR statute.

Staff Analysis

Both the Company and the Department agree that the restoration project is not eligible for recovery under the TCR statute, Minn. Stat. § 216B.16, subd. 7b. There is no disagreement that the repair project costs are recoverable from ratepayers. The issue is whether they are recoverable in the TCR Rider under Minn. Stat. § 216B.1645.

According to Xcel, Minn. Stat. § 216B.1645 (the "Renewable Energy Statute") allows for recovery through an automatic adjustment mechanism of <u>all</u> investments or expenditures entered into by a public utility in connection with satisfying renewable energy mandates of the Legislature.

Xcel's basic argument is that because the Buffalo Ridge generation is necessary to meet its renewable requirements and the lines replaced in the Buffalo Ridge Restoration Project (Storm Repair Costs) allow the Company to gather and transmit that electricity, the repair costs are recoverable under the RCR statute.

The Department initially argued that based on its interpretation of Minn. Stats. §216B.1691 and §216B.1645, utilities can request cost recovery of any renewable generation investment to meet the RES that has been determined by the Commission to be eligible for rider cost recovery as well as any such investment in new transmission facilities. But the Buffalo Ridge Restoration Project costs could not be recovered in the TCR rider.

In reply comments, the Department reversed its position in this case stating that the 34.5 kV collector system is needed to transmit the output of specific renewable generators to the transmission system, and those costs should be included. The Department also agreed that the storm damage impaired the delivery of wind energy so the capital repairs to the 115 kV facilities qualify for cost recovery under the RCR statute.

The DOC stated it met with Xcel to discuss the Company's comments. What was discussed at the meeting has not been disclosed so it is not part of the record in this docket. Therefore it is not known what may have convinced the Department to change its position.

The following is the relevant portion of Minn. Stat. § 216B.1645:

> Upon the petition of a public utility, the Public Utilities Commission shall approve or disapprove power purchase contracts, investments, or expenditures entered into or made by the utility to satisfy the wind and biomass mandates contained in sections 216B.169, 216B.2423, and 216B.2424, and to satisfy the renewable energy objectives set forth in section 216B.1691, including reasonable investments and expenditures made to transmit the electricity generated from sources developed under those sections that is ultimately used to provide service to the utility's retail customers, including studies necessary to identify new transmission facilities needed to transmit electricity to Minnesota retail customers from generation facilities constructed to satisfy the renewable energy objectives . . .

If one were take the following portion of the sentence, "including reasonable investments and expenditures made to transmit the electricity generated from sources developed under those sections" and base a conclusion only on that, it would be possible to reach the conclusion Xcel advocates. However, it seems more logical that the paragraph in the statute is intended to be read and applied as a whole.

The statute specifically allows the Commission to allow rider recover of the costs of generation facilities developed to satisfy the specific renewable mandates and objectives. The statute goes on to say "including reasonable investments and expenditures made to transmit the electricity generated from sources developed under those sections." The renewable generation sources that would be allowed in the rider would be new ones rather than existing facilities because existing facilities would already be in rate base and would not need rider recovery. The logical conclusion is that the transmission facilities are those specifically constructed to serve the new generation facilities. Because those renewable resources are most likely constructed in remote areas where transmission facilities are not available, there would be a need to construct transmission facilities to transport the electricity.

There has been some discussion on the meaning of “new.” Xcel argued that because the lines were rebuilt they can be considered “new.” However, in this context, while “new” would mean never used, the more important meaning is incremental, as in capacity that did not exist before.

The Restoration Project would be analogous to someone whose car was totaled in an accident and then replaced it with a new car. Before the accident they had a car which provided transportation. After the accident, they had a car, maybe with newer technology, but it still only provides transportation. They were in basically the same situation both before and after the accident.

The wind farm existed before the storm and the costs were (and are) being recovered in base rates. The cost of the collector system as well as the transmission lines was being recovered in base rates prior to the storm as well. If the purpose of the statute is to encourage new generation to be constructed and allow recovery of the collector and transmission lines needed to transmit the electricity from the new generation, it seems that the repair/rebuilt of an existing line for an existing generation facility would not qualify for recover under the statute.

The issue is how the statute should be interpreted. Is the intent broad enough that the cost of a restoration of an existing line used to transmit renewable energy can be recovered in a rider? Staff believes that the paragraph should be read an interpreted as a whole which would prevent recovery in a rider.

The cost of the Buffalo Ridge Restoration was included in plant in service in the E-002/GR-12-961 rate case. No party objected to that, so the cost is currently being recovered in base rates. That recovery was effective January 1, 2012 when interim rate were implemented. The inclusion or exclusion of the Buffalo Ridge Restoration costs would only apply to 2012. Between rate cases, Xcel does not recover the cost of any plant additions that are not permitted to have rider recovery. Therefore, if the costs are not allowed rider recovery, the Company would not be deprived of any normally received recovery.

CapX2020 Bemidji Project Recovery Cap

Xcel

On page 17, Xcel showed initial cost estimate of Bemidji to be $32.4 million and investment through 2012 as $32.3 million.

According to Xcel, one aspect of the Project costs presented to the Commission in both the CON and Route Permit, but not included in the estimates, is the cost of right-of-way and permitting. Approximately $12.7 million in right-of-way and permitting costs have been incurred for the Bemidji Project.

The CapX2020 participants and MISO have developed a list of required Miscellaneous Upgrades. The combined cost for the upgrades is approximately $11.9 million. Xcel stated this cost should be added to the range of project cost estimates approved by the Commission in the CON. Therefore, using high end of the $60.6 million to $99.1 million range listed in the CON and Route Permit filings plus the $11.9 million of Miscellaneous Upgrade costs and the $12.7 million of right-of-way and permitting costs yields a total Cost Cap for the Bemidji Project of $123.7 million. Applying the Company's 26.2% ownership share for the Bemidji Project results in a $32.4 million Cost Cap for the Company's 2012 TCR filing.

Department

The Department stated that in the Commission's 2010 TCR Order,[1] the Commission set the standard for evaluation of TCR Project Costs going forward as follows:

> …the Commission finds that TCR project cost recovery through the rider should be limited to the amount of the initial cost estimates at the time the projects are approved as eligible projects, with the opportunity for the Company to seek recovery of excluded costs on a prospective basis in a subsequent rate case. A request to allow cost recovery for project costs above the amount of the initial estimate may be brought for Commission review only if unforeseen or extraordinary circumstances arise on a project.

Xcel argued that the cost cap for the Bemidji project is $60.6 – 99.1 million. The Department stated that the high end, $99.1 million, was the cost estimate if the longest route corridor was chosen. The Preferred Corridor, which was the shortest route, was the selected corridor for construction with an estimate of $60.6 million so it would unrealistic to use 99.1 million as the cost cap.

Xcel further stated that costs for rights-of-way, ancillary permitting, and the required transmission system upgrade were not included in the cost estimate presented to the Commission in the Certificate of Need. These costs add $24.8 million to the total cost of the Bemidji Project.

The Department argued that it is important for Certificate of Need (CN) applicants to include all costs in their estimates. Further, as indicated above, the Commission already decided that such costs are not allowed to be recovered in riders, but are eligible for recovery in a rate case.

The Department concluded that the appropriate cap for the Bemidji Project is $60.6 million. It may be reasonable to escalate those costs to current dollars based on an index such as the

[1] April 27, 2010 Order in Docket No. E-002/M-09-1048

producer price index (PPI) published by the Bureau of Labor Statistics. If Xcel believes that the cost of the Bemidji Project should be escalated to current day dollars, the Department recommended that Xcel include an escalation factor in reply comments and an explanation of its appropriateness for use in this proceeding

Xcel

Xcel stated that while previous Commission orders imposed cost recovery caps in TCR and RES Riders, the Company noted that the statutes do not contain provisions for cost recovery caps. As a result, Xcel asserted that the Commission can consider whether the use of cost recovery caps continues to be appropriate.

According to Xcel, the Commission first considered the issue of a cost cap on a transmission project in Xcel's 2009 TCR Rider (Docket No. E-002/M-09-1048). In that case, the Commission did not allow recovery in the TCR Rider of the anticipated $1.7 million increase related to the Blue Lake – Wilmarth 345 kV line, which was initially expected to cost $6 million.

The Company acknowledged there may be circumstances where using cost caps on rider recovery could be appropriate. The Commission initially established the cost cap concept when considering RES rider recovery of the Nobles wind project costs. The Commission limited RES Rider recovery to the cost estimates in the original Certificate of Need estimate. Xcel claimed that part of the Commission's reasoning was that the initial project cost estimates were used in a bidding process where the Nobles project competed against other generation projects. Therefore, since costs were a factor and were related to competition with other generation projects, the Commission determined that allowing RCR Rider recovery was not appropriate without additional review in a rate case.

Xcel stated that it does not believe the same rationale is applicable to eligible transmission projects; while cost is considered in determining whether a transmission line is needed, more important are reliability and customer demand considerations.

According to Xcel, one of the reasons the Legislature enacted the TCR Statute and allowed rider recovery was because it recognized the complexity of the transmission permitting, siting, routing, and construction process and length of time required to complete projects. Xcel claimed that imposing a cap on rider recovery and deferring review of certain costs to a future rate case is contrary to the intent of the statute.

To encourage the Company and other utilities to invest in transmission facilities, the Legislature provided the Commission with the authority to grant cost recovery through a rider outside of a general rate case. The Commission was authorized to approve an annual cost recovery mechanism and make prudency determinations as part of those proceedings.

The Department comments do not assert that specific project costs were not prudently incurred. Xcel argued that the Commission has never previously determined any Company transmission project costs to be ineligible for rate recovery as imprudent, and it believes the estimated Bemidji project costs reflected in its TCR Rider petition can be expected to be prudent. The annual TCR Rider proceedings can be the appropriate forum for making any prudency determination.

Xcel argued that even if the Commission were to decide to continue to apply the cost cap principle to TCR eligible projects, it would be inappropriate to apply such a cap to the CapX2020 Bemidji project. At the time the project applicants submitted the Certificate of Need application for the Bemidji line in 2007, the Commission had not applied a cost cap to a TCR eligible project.

Moreover, while the Bemidji project Certificate of Need estimates did not include cost estimates for all necessary work and permitting, the fact that the project would incur some additional costs was disclosed and known. Consistent with Certificate of Need and Route Permitting practice at that time, the project applicants provided high-level estimates to construct the transmission line along various route alternatives. It is not feasible to estimate costs to the granularity needed for rate making purposes when a route and the issues associated with constructing a transmission line are not known.

Xcel stated that at the time of the Certificate of Need application in 2007, the estimated cost of the Bemidji project cost was $60.6 million (2007 dollars). At the time of the route permit proceeding in 2007, the projected cost as approved was estimated to be $66.2 million (2007 dollars). The Company stated it now estimates the total cost of the project to be approximately $116 million.[2] The cost to construct the transmission line and substation – the facilities granted a Certificate of Need – is approximately $89.5 million.

If the Commission were to determine that a cap is appropriate, the Company proposed two adjustments to the 2007 initial cost estimates.

First, the Department suggested use of an escalator for the Bemidji cost estimates. According to Xcel, the appropriate escalator is the Handy Whitman index for transmission projects. Based on the Handy Whitman index, the cost estimate for the Bemidji Project in 2012 dollars is approximately $8.2 million higher, or $74 million, compared to the original cost estimate of $66.2 million contained in the Route Permit proceeding.

Second, this escalated 2012 estimate does not include additional critical costs that were necessary and prudent to effectuate the project and actually place it in service in 2012. When the Commission first applied the cost cap principle to the Wilmarth/Blue Lake project in the 2010 TCR Rider proceeding, the Commission provided for the recovery of costs in excess of the project cap when such costs are unforeseeable and extraordinary. Xcel argued that the Bemidji Project costs eligible for TCR Rider recovery should include the additional winter construction costs of $9.6 million incurred due to a record warm winter and the $3.2 million of post permit legal fees which were unforeseeable or extraordinary events. This adjustment is reasonable and

[2] This is the total cost of the project. Xcel's share is 26.2%

would bring the cost of the project eligible for TCR Rider recovery to approximately $87.2 million.

Department

The Department stated it reviewed Xcel's reply comments regarding cost recovery caps and was not persuaded by its arguments and continued to support the essential use of cost recovery caps. The Department noted that cost estimates are an important part of CN and Route Permit proceedings, regardless of whether a bidding process is used. Cost estimates are used extensively throughout CN and Route Permit proceedings and are relied upon by the Commission, particularly in considering alternatives to the proposed project. Further, approval of projects in CN and route proceedings is not a blank check for cost recovery in riders or rate cases. That is why it is important for CN and Route Permit applicants to include all costs in their estimates.

The Department stated Xcel's arguments suggest that, with riders, the burden of proof turns on its head; that is, rather than utilities having the burden of proof to show that rates are reasonable, Xcel suggests that all costs requested for recovery in a rider must be granted unless there is a showing of imprudence, meaning that the burden of proof is on regulators to show why utility requests are unreasonable. Clearly, there is nothing in the statutes to suggest that the burden of proof changed under riders.

Perhaps even more importantly, Xcel's arguments miss the important role that cost caps provide. TCR riders give utilities the extraordinary ability to charge their ratepayers for costs of facilities prior to the ordinary timing: the first rate case after the project goes into service. In exchange, ratepayers need some assurance that utilities are being held accountable for the costs they charge to ratepayers. Requiring utilities to wait until the first rate case after a project is in service to justify recovery of cost overruns of projects is the least that can be done to assure ratepayers that utilities are being held accountable.

The Department argued that as Xcel's narrative indicates, absent cost recovery caps, utilities have little incentive to expend the effort needed to accurately report project costs in CN and Route Permit proceedings. Moreover, disregarding CN and Route Permitting cost estimates and allowing utilities to recover all costs jeopardizes the integrity of the CN and Route Permitting process and the figures relied upon by the Commission.

The Department noted that the Commission has a well-established precedent on this issue. Further, Xcel has no reasonable basis to argue that the Company believed it was entitled to recover cost overruns, let alone to do so prior to making a showing of prudence in the first rate case after the project went into service. Cost recovery caps in TCR proceedings are critical to hold utilities accountable for: 1) minimizing cost overruns, and 2) for meeting their burden to show why ratepayers should pay for the cost overruns. The Department noted that Xcel can seek recovery for costs above initial estimates in a future rate case.

The Department stated that in initial comments, it concluded that the appropriate cap for the Bemidji Project was $60.6 million but it may be reasonable to escalate those costs to current dollars based on an index such as the producer price index.

On page 20 of its reply comments, Xcel stated that the Handy-Whitman Index is the appropriate cost escalator for the Bemidji Project. According to Xcel, based on the Handy-Whitman Index, the cost estimate for the Bemidji Project in 2012 dollars is approximately $74 million, or $8.2 million higher than the original cost estimate of $66.2 million contained in the Route Permit proceeding.

The Department agreed that the estimated costs for the Bemidji Project changed from $60.6 million in the CN proceeding to $66.2 million in the Route Permit proceeding. As a result, the Department concludes that the appropriate cap for the Bemidji Project (before inflation) should be $66.2 million.

Given that the original CN and Route Permit proceedings for this project were based on 2007 figures, the Department concluded that it is appropriate to allow the Company to use a cost escalator for this project. Therefore, the Department recommended that cost recovery for the Bemidji Project be limited to $74 million in the TCR Rider.

Staff Analysis

Staff agrees with the Department's statements in its reply comments regarding the importance of accurate cost projections in CN and Route Permit proceedings. The Company is the party that would best be able to project the costs. The expectation is that the cost projections provided should be as accurate and complete as possible and that the Company would held accountable for its projections. That accountability is achieved through a cost cap.

As noted by the Department, the Commission determined in its April 27, 2010 TCR Order in Docket No. E-002/M-09-1048 that on a going forward basis:

> …the Commission finds that TCR project cost recovery through the rider should be limited to the amount of the initial cost estimates at the time the projects are approved as eligible projects, with the opportunity for the Company to seek recovery of excluded costs on a prospective basis in a subsequent rate case. A request to allow cost recovery for project costs above the amount of the initial estimate may be brought for Commission review only if unforeseen or extraordinary circumstances arise on a project.

Based on that Order, the Commission has determined that TCR projects should be capped so the remaining question here is what the cap should be for the Bemidji Project?

The Department stated the cap should be $74 million which is the route permit projection adjusted for inflation. Xcel stated the inflation adjusted cap would be $74 million which is a rounded amount. According to Xcel, the inflation adjustment would be $8.2 million which added to the original cost estimate of $66.2 million results in a cap of $74.4 million.

Xcel proposed that if a cap is required, it should be $87.2 million. That is $74.4 million plus the additional winter construction costs of $9.6 million and the $3.2 million of post permit legal fees.

Xcel argued that the additional winter construction costs and the post permit legal fees should be included because the costs were unforeseeable and extraordinary. Any cost increase could be considered unforeseeable because if it wasn't, then it would have been expected to be included in the cost projection. Allowing such costs would seem to defeat the purpose of a cost cap.

Staff notes that on October 31, 2013, Xcel filed updated recaps of costs and revenues for 2011 and 2012. Xcel stated it made an adjustment to cap the costs of the CapX 2020 Bemidji project. Based on information provided to Staff by the Company the cap factored into the update was $74 million.

The CapX2020 Bemidji Project was moved into base rates in the 12-961 rate case effective January 1, 2012. No party raised any objections to the inclusion so the total cost is being recovered through base rates. The decision regarding the cap will only apply to 2012.

Capitalized Internal Cost

Department

The Department submitted an information request to Xcel questioning whether or not internal capitalized costs were included in its TCR Rider calculations. Xcel confirmed that approximately $1.5 million of internal capitalized labor costs are included in the TCR Rider consistent with prior filings.

The Department noted that Minnesota regulation has a history of denying recovery of capitalized internal costs outside of a rate case because representative amounts of such costs are already being recovered from ratepayers through base rates. The Commission required Minnesota Power to exclude capitalized internal costs from its TCR Rider in its 2010 TCR filing (Docket No. E-015/M-10-799). As a result, the Department recommended that the Commission deny Xcel's proposal to recover $1.5 million of capitalized internal costs in its TCR Rider and defer recovery until Xcel's next rate case

Xcel

Xcel disagreed with the Department's recommendation, and recommended that it be allowed to recover capitalized internal costs in the TCR Rider. Xcel stated that approval of these costs should be granted based on the following:

1) The Commission's Order in Minnesota Power's 2010 TCR Rider filing (Docket No. E015/M-10-799) also stated that "The Commission's evaluation of a request for rider recovery is based on the specific facts presented in each case…."
2) Internal labor costs incurred for capital projects after the 2011 rate case test year are not being recovered in current rates, so no double recovery of costs is occurring.
3) Allowing the company recovery of the costs is consistent with state policy and statute, Commission rules and precedent and FERC accounting standards.
4) Including recovery of all capitalized labor (internal and external) costs in the TCR Rider will avoid unnecessary accounting and rate making complexity.

Department

The Department reviewed Xcel's reply comments and continued to recommend the Commission deny Xcel's request for the following reasons:

1) The Commission has established precedent on the issue of capitalized internal cost recovery in a rider, including the treatment in Minnesota Power's 2010 TCR Rider filing.
2) There is no difference in the way Xcel and Minnesota Power account for the costs in their riders, so there is no reason to treat Xcel differently than Minnesota Power.
3) The Department noted that while specific internal labor costs incurred for capital projects after the 2011 rate case are not being recovered in current rates, the Company is recovering a representative amount in current rates.
4) The Department acknowledges that denying recovery can result in unnecessary accounting and ratemaking complexity and notes that riders themselves are a departure from traditional ratemaking. Riders already cause significant accounting and ratemaking complexity, which adds to the burden and time constraints of all parties.

Staff Analysis

As noted, the Commission has disallowed recovery of capitalized internal costs in Minnesota Power's TCR Rider filing in Docket No. E-015/M-10-799. Therefore, there is a precedent for excluding those costs from recovery in a rider.

Xcel's argument has focused on the issue of double recovery of costs capitalized in a rate case. That focus is misplaced because the issue is related to the level of costs that are included in O&M expense in a rate case but in future years a portion of that level is capitalized as explained below.

For example, assume that in a rate case a company has $1,000,000 of labor costs and that $800,000 is included in O&M expense and $200,000 is capitalized. The $800,000 would be recovered in the base rates set in the rate case.

Assume in the following year, the company has the same $1,000,000 of labor costs, but only $750,000 is included in O&M expense and $250,000 is capitalized. The company would continue to collect $800,000 in base rates even though the actual cost is $750,000. The additional $50,000 that was capitalized would be included in rate base in its next rate case filing where it would earn a rate of return and would be depreciated over the assigned life. In this example, the company would recover $50,000 currently and would also recover the same $50,000 over the life of the asset resulting in double recovery starting in the next rate case.

Attachment F of Xcel's reply comments shows the allocation of its labor costs from 2004 through 2011. This attachment suggests that Xcel is capitalizing approximately the same percentage of labor each year. While the percentages provide an indication of what is happening, Staff believes that is not specific enough to base a decision upon.

Unlike a rate case, a rider does not look at all the costs and does not reset base rates. For that reason, there is the potential of double recovery of costs. If the Commission believes that is a concern, there is precedent to disallow recovery of capitalized internal costs from this rider.

Tracker Account True-up

Xcel

The 2011 Annual TCR Compliance Filing, TCR True-up Report and Tracker Balance are included as Attachments 30-33, and the Company decreased the revenue requirements in the proposed 2012 TCR by approximately $432,000 accordingly to reflect prior period over-recoveries.

Department

On page 19 of its comments, the DOC recapped the activity shown in the tracker account for 2011 (Xcel Attachment 30). Included in the recap was an item labeled 2011 Renewable Statute Revenue Requirement for $156,999 and another labeled Revenue Requirement Impact of Project 18 retirement of ($67,146).

The Department noted that the 2011 Renewable Statute revenue requirements of $156,999 and the Project 18 retirement revenue requirements of ($67,146) are related to the Buffalo Ridge Restoration Project. Since the Buffalo Ridge Restoration Project is one of four new projects proposed for recovery in the instant filing, the Department recommended that Xcel explain, in reply comments, why these revenue requirement amounts are included in the Company's 2011 TCR Compliance Filing, True-up Report, and Tracker Balance.

Xcel

The Company stated consistent with past practice, it included the Buffalo Ridge restoration project in the 2011 tracker balance because it went into service in 2011, with the understanding that inclusion in the 2011 tracker balance is subject to Commission approval of project eligibility under the RCR Statute in this proceeding.

According to Xcel, the Commission approved similar treatment of the Blue Lake/Wilmarth 345 kV transmission line in its Order dated April 27, 2010 in the Company's 2010 TCR proceeding (Docket No. E002/M-09-1048). In that case, Xcel requested approval to include the Blue Lake/Wilmarth project in the TCR Rider in 2010 under the RCR Statute, and proposed to include the revenue requirements in the TCR Tracker Balance beginning in March 2009 for the portion of the project that went into service at that time. The Commission approved tracker balance treatment, since it found the project eligible for TCR Rider recovery. Xcel stated it believes its proposed inclusion of the Buffalo Ridge restoration project costs in the 2011 tracker is consistent with this past practice, assuming the Commission agrees the Buffalo Ridge project is eligible for TCR Rider recovery.

Department

The Department expressed concern with Xcel's proposal to include Buffalo Ridge Restoration Project costs in the 2011 tracker since this project was never approved for recovery in the prior TCR proceeding (Docket No. E002/M-10-1064). It is the Department's view that the projects included for recovery in a specific TCR proceeding should remain fixed once they are approved by the Commission. In the event that a utility incurs project costs before it is deemed eligible for recovery, the Department recommends that these costs be included in the current period revenue requirements in the TCR proceeding in which the Commission deems the project to be eligible for recovery.

As shown in Attachment 15, page 1 of 12 in Xcel's initial filing, the Company proposed to include $156,999 of revenue requirements in the 2011 tracker for the Buffalo Ridge Restoration Project. Therefore, the Department recommends that, if the Commission approves this project for recovery in the current proceeding, the prior period revenue requirements of $156,999 should be removed from the 2011 Tracker account and added to the 2012 revenue requirements.

Staff Analysis

Xcel stated consistent with past practice, it included the Buffalo Ridge project in the tracker balance as of December 31, 2011 because it went into service in 2011.

According to Xcel, the Commission approved similar treatment of the Blue Lake/Wilmarth 345 kV transmission line in its Order dated April 27, 2010 in the Company's 2010 TCR proceeding (Docket No. E002/M-09-1048). In that case, Xcel claimed it requested approval to include the Blue Lake/Wilmarth project in the TCR Rider in 2010 under the RCR Statute, and proposed to include the revenue requirements in the TCR Tracker Balance beginning in March 2009 for the portion of the project that went into service at that time. The Commission approved tracker balance treatment, since it found the project eligible for TCR Rider recovery. Xcel stated it believes its proposed inclusion of the Buffalo Ridge restoration project costs in the 2011 tracker is consistent with this past practice, assuming the Commission agrees the Buffalo Ridge project is eligible for TCR Rider recovery.

Xcel's characterization of the Commission's decision in the 09-1048 is not accurate. On page 2 of its April 27, 2010 ORDER APPROVING 2010 TCR PROJECT ELIGIBILITY AND RIDER, TCR TRACKER REPORT, AND TCR RATE FACTORS in Docket No. E-002/M-09-1048, the Commission stated:

> II. 2009 Tracker Compliance and True-up Report
>
> Xcel submitted a report of its tracker activity for 2009, which compared amounts authorized in its 2009 TCR petition with actual expenditures and updated cost estimates. Xcel indicated that it expects to over-recover its 2009 revenue requirement by $3.121 million, and proposed a true-up in its 2010 TCR rider.
>
> No party objected to Xcel's report of tracker activity for 2009, and the Commission will so approve.

In that docket, the Company did not disclose in the written request that it had included the 2009 Blue Lake/Wilmarth costs in the true-up. It did include them on the schedule detailing the true-up (Attachment 30). However, the only way anyone would know they were new costs would be to make a line by line comparison with the schedule of costs proposed to be included in the rider factor from the prior year's filing for 2009 recovery. Normally that would not be done because the expectation is that the projects included in the true-up are the same projects approved for recovery in the prior docket.

The DOC's comments (in 09-1048) included a recap of the true-up account by statue governing the recovery of the projects. There is no indication that the DOC was aware that the 2009 Blue Lake/Wilmarth costs were included in the true-up. Staff briefing papers simply stated that there was no controversy regarding the true-up.

The Commission's Order stated that Xcel submitted a report of its tracker activity for 2009, which <u>compared the amounts authorized in its 2009 TCR petition with actual expenditures and updated cost estimates.</u> Based on this statement it appears that the Commission believed that the project costs included in the tracker included only those projects that were approved for recovery in 2009 factors in the 08-1284 docket. It appears to Staff that no party other than Xcel knew the costs were included. Because the Commission was not informed that the costs were included, it could not have specifically approved their inclusion as alleged by the Company.

Staff believes it is clear that the Commission did not approve the inclusion of the prior year costs in the true-up. The result of Xcel including the prior year costs in the true-up after the fact would be adjusting prior rates for new costs which is retroactive rate making that is not allowed. Both the addition of $156,999 for the Buffalo Ridge Restoration as well as the reduction for the related retirement of ($67,146) should not be included in the 2011 true-up nor allowed in the 2012 costs as suggested by the Department.

Under normal ratemaking, a company may not recover costs related to plant additions for periods between rate cases in the current rate case. Recovering the costs in a rider should not allow costs to be recovered retroactively.

Staff notes that the true-up schedule in this docket (Attachment 30) also includes adjustments for Pleasant Valley-Byron and Glencoe-Waconia, neither of which were included on the 2011 Attachment 4 which presented the proposed revenue requirement for the rider in Docket No. E-002/M-10-1064.

According to Xcel, the true-up as of December 31, 2011 was $432,000 which reflects prior period over-recoveries. This amount may change depending of the Commission's decisions in this docket.

On October 31, 2013, Xcel filed an updated true-up schedule for 2011 with all twelve months being actual amounts. Xcel stated the schedule was adjusted to: 1. remove the internal labor costs for each TCR project; and 2. cap the costs of the CapX 2020 Bemidji project. With the updated Tracker Reports and these two adjustments, the Company's requested revenue requirement for 2012 has been reduced to $22.9 million.

Revenue Requirements

The TCR Statute allows for a return on investment at the level approved in the utility's last general rate case, unless a different return is found to be consistent with the public interest. Xcel used the overall rate of return of 8.83% as approved by the Commission in the Company's 2008 Rate Case Settlement agreement.

The Department noted that on May 14, 2012 the Commission issued its Order in Xcel's 2010 rate case. The Commission approved an overall rate of return of 8.32%. The Company has submitted revised 2012 TCR revenue requirements and rate adjustment factors using the allocators and the overall rate of return from the 2010 rate case. (See Attachment G of Xcel Energy's Reply comments of 8/31/12)

TCR Rate Adjustment Calculations

The TCR rate adjustment factor calculations for the proposed TCR and RCR projects and charges assume proposed projects are approved for eligibility and the TCR adjustment factors are effective October 1, 2012.

The Company proposed projected revenue requirements recovered through the 2012 TCR adjustment factors from Minnesota electric customers of approximately $29.6 million, compared to approximately $10.3 million in the 2011 TCR adjustment factors (which reflected the inclusion of facilities in base rates rather than the TCR). The 2012 TCR adjustment factors are outlined below.

Proposed 2012 TCR Adjustment Factors

The costs recovered under the TCR are allocated among the NSP Companies (MN & WI), to the Company's State jurisdictions (MN, ND & SD), and to the Jurisdictional Classes in MN (Residential, C&I, Non –Demand, C&I Demand & Street Lighting) based on the demand factors approved by the Commission in prior TCR filings. Within the three non-demand metered classes, the costs are recovered through a per kWh charge. The per kWh charge for each of the three classes is determined each year by applying the class specific allocation factor to the Minnesota jurisdiction average per kWh TCR cost.

The Company provided revised 2012 TCR revenue requirement calculations and rate adjustment factors using the overall rate of return approved by the Commission in the Company's 2010 Rate Case Settlement agreement. (See Attachment G of Xcel Energy's Reply comments of 8/31/12) The Attachment G has also been updated with actual sales through June 2012 and reflect an October 1, 2012 implementation date for the TCR Rider rate factors. The column in the table below labeled 2012 Updated Rate reflects these changes. The column labeled 2012 Proposed Rate is per the Company's Initial filing dated January 13, 2012.

Customer Group	2012 Updated Rate	2012 Proposed Rate[3]	2011 Actual Rate
Residential	$0.001716/kWh	$0.001368/kWh	$0.000931/kWh
Commercial Non-Demand	$0.001320/kWh	$0.001052/kWh	$0.000716/kWh
Demand Billed	$0.439/kW	$0.350/kW	$0.238/kW
Street Lighting	$0.000824/kWh	$0.000657/kWh	$0.000447/kWh

Using the 2012 Updated Rate, the average residential customer that uses 750 kWh per month would see a bill increase of approximately $1.29. This is about a $0.59 per month increase when compared to the 2011 Actual Rate adjustment factor for 2011.

The Department has noted that the Company has complied with the Transmission Statue requirement and provided all information as listed in the statute.

Midwest ISO Revenue Requirements – RECB Charges

The Transmission Statute also allows recovery of costs billed under a federal tariff (such as the Midwest ISO Tariff) associated with other transmission being constructed in the MISO region by other utilities. Currently, the Midwest ISO Transmission Expansion Plan (MTEP) is underway.

The total costs that the Company (NSP-WI & NSP-MN) is expecting to incur under the MISO Tariff are $27.8 million which are billed under Schedule 26 and 26A under the tariff. The Company expects NSP System native load to be billed $25 million of these costs plus $4.2 million for the cost of the Company's load in other pricing zones, bringing the total to $29.2 million. The Company expects these charges to be offset by $27.3 million in Schedule 26 and

[3] Based on an April 1, 2012 effective date.

26A revenues associated with regional rate recovery of NSP System project investments. The net expense the Company is expected to incur is $1.9 million. Additional allocation of the costs to MN & WI results in the Company requesting recovery of $1.4 million for the Minnesota jurisdiction. The Department noted that Xcel's proposed adjustment is consistent with past TCR filings.

Other Costs Included in Revenue Requirement Calculations

The Company also included costs in their revenue requirement calculation that were approved by the Commission in previous TCR Orders. Additional costs included are projected construction expenditures and costs, property taxes, current and deferred taxes and book depreciation.

Interchange Agreement Allocator

The Company uses a demand allocator to calculate the Minnesota jurisdictional revenue requirement for production and transmission plant investment. The allocator reflects the cost sharing agreement between the Company and NSP-WI pursuant to the Interchange agreement. While actual allocators were used for 2010, budgeted allocators were used for 2011/2012. Any over/under recovery as a result of using budget demand factors will be reflected in future TCR filings.

Open Access Transmission Tariff (OATT) Calculation

The TCR transmission requirement includes a revenue offset provided by wholesale services under the MISO Tariff. The OATT credit captures a portion of the revenue the Company receives from third party customers who are charged a rate to use the Company's transmission system. The OATT revenue credit for each project is shown in the revenue requirement calculation for each project.

Allocation of the TCR Rate Adjustment Based on the Percentage of Revenue Basis

The Commission's October 21, 2011 TCR Order required the company to include an analysis of:

> "a rate design alternative proposal reflecting the allocation of the TCR rate adjustment based on the percentage of revenue basis, illustrating comparative impacts on the customer classes and customers within the demand-billed class."

The Company performed the required analysis and found that using the percentage of revenue approach resulted in an average of 18% lower TCR billing for Demand Metered customers. The Non-Demand Metered customers billing was 1% higher for Residential customers and 30% higher for Commercial Non-Demand Metered customers.

The DOC noted that there are valid policy reasons for using a demand-based charge for transmission expenses. For example, transmission is generally needed to meet peak demand needs, not energy needs. However when transmission is built to interconnect a wind generator, the need for which is based on the level of a utility's sales, or when transmission is built to meet multiple needs, as in the case of the Brookings line, it is difficult to determine what portion of the line was needed to meet demand, energy, or policy needs. Since the majority of the transmission costs are not wind related, the Department does not recommend a change in the use of the demand allocator at this time.

2012 TCR Variance Analysis Report

The Commission ordered the Company to perform a TCR variance analysis report in Docket No. E002/M-09-1048, dated April 27, 2010, read as follows:

> In setting guidelines for evaluating project costs going forward, the TCR project cost recovered through the rider should be limited to the amounts of the initial estimates at the time the projects are approved as eligible projects, with the opportunity for the Company to seek recovery of excluded costs on a prospective basis in a subsequent rate case. A request to allow cost recovery for project costs above the amount of the initial estimate may be brought forward for Commission review only if unforeseen and extraordinary circumstances arise on the project.

The following table provides a comparison of total expected investment in 2012, by project as compared to the initial cost estimate.

Transmission Project	Cost Estimate Docket	Initial Cost Estimate ($M)	Investment Thru 2012 ($M)
Chisago Apple River	CN-04-1176 M-09-1048	$66.4	$48.8
CapX Fargo	CN-06-1115	$231.0	$109.1
CapX Brookings	CN-06-1115	$544.4	$126.3
CapX La Crosse	CN-06-1115	$276.5	$35.6
CapX Bemidji	CN-07-1222	$32.4	$32.3
Pleasant Valley Byron	CN-08-992	$4.82	$4.4
Glencoe Waconia	CN-09-1390	$29.0	$13.1

2011 TCR Compliance Filing, True-up Report & Tracker Balance

The Company filed the 2011 Annual TCR Compliance Filing, TCR True-up Report and Tracker Balance. To reflect prior period over recoveries, the revenue requirement for the 2012 TCR has been reduced by approximately $432,000 per Attachment 4 of the Company's original filing.

Proposed Revised Tariff Sheets

The Company included and is requesting approval of their TCR tariff sheet. The TCR tariff sheet and final TCR rate factors will be revised by the Company to comply with the Commission's final order in the proceeding. The Company is proposing calculation of the final TCR factors based on the approved revenue requirement and forecasted sales in an effort to match as closely as possible 2012 revenue recovery and approved 2012 revenue requirements.

Proposed Customer Notice

The Company has proposed the following language to be included as a notice on the customers' bill the month the TCR factor is implemented:

> This month's Resource Adjustment includes an increase in the Transmission Cost Recovery Adjustment (TCR) which recovers the costs of transmission investments, including delivery of renewable energy sources to customers. The TCR portion of the Resource Adjustment is $0.001368 per kWh for Residential Customers; $0.001052 per kWh for Commercial (Non-Demand) customers; $0.350 per kW for Demand billed customers; and $0.000657 per kWh for Street Lighting customers. Questions? Contact us at 1-800-895-4999.

Integration of the TCR Rider Projects with Rate Case Docket No. E-002/GR-12-961

Xcel proposed to include the following projects in the 2012 TCR rider:

- Project 8 – Chisago Apple River
- Project 11- CapX2020 – Fargo
- Project 12 - CapX2020 – Brookings
- Project 13 - CapX2020 – La Crosse
- Project 14 - CapX2020 – Bemidji
- Project 17 - Pleasant Valley – Byron
- Project 19 - Glencoe – Waconia
- RECB
- Project 18 - Buffalo Ridge Restoration

The Company moved the following projects into base rates with recovery effective as of January 1, 2013 when interim rates went into effect in the rate case, Docket No. E-002/GR-12-961:

Project 8 Chisago/Apple River
Project 14 CapX2020 Bemidji
Project 17 Pleasant Valley - Byron
Project 18 Buffalo Ridge Restoration

The Company should be allowed to recover the revenue deficiency for all of the proposed projects which the Commission determines should be allowed to be recovered in the TCR rider for 2012. Because the Company has continued to charge the rider factor approved in the 2011 filing, the amount being recovered is less than what would have been recovered with the proposed factors in this docket. Any under-recovery will be included in the true-up in future filings. Staff suggests that any under/over-recovery for the four projects moved into base rate remain in the tracker as part of the December 31, 2012 true-up balance. In seems to make more sense to just let any variance for 2012 remain in the tracker until it zeros out rather than deal with any under/over-recovery in a different manner.

Staff believes that the tracker account should be updated to include the actual revenue deficiency for each included project for 2012 as well as the actual revenue recovery. Xcel submitted updated schedules for 2011 and 2012 which were filed in edockets on October 31, 2013 which provided the actual amounts.

Xcel stated the updated schedules removed the internal labor costs for each TCR project and capped the costs of the CPPX2020 Bemidji project at $74 million. However, these schedules may need to be updated to reflect any adjustments the Commission makes related to the Buffalo Ridge Restoration Project, new projects included in the tracker true-up, and the cap amount for Bemidji.

Compliance Filing

Xcel's initially proposed revenue requirement to be recovered in the TCR rider for 2102 was $29,594,035. In its reply comments, that amount was reduced to $27,775,238. The adjustments and update to actual amounts made in the October 31, 2013 update further reduced the revenue requirement to $22,870,648. The decisions made by the Commission on the issues in this docket may also modify the revenue deficiency. Staff recommends that the Commission require Xcel to make a compliance filing due 10 days after the date of the Order that reflects the Commission's decisions and would include updated the tracker account for 2011 and 2012 (if needed), revised rider factors and tariff sheets reflecting those rates. Because the rider factors would be implemented in 2014, Staff suggests that forecasted 2014 sales volumes be used to calculate the factors unless the Commission believes a different forecast would be preferable.

Decision Alternatives

Rider Recovery of New Transmission Projects

1. Determine that the following transmission projects are eligible for recovery in the TCR rider beginning in 2012: CapX2020 Brookings; Pleasant Valley-Byron; and Glencoe-Waconia.

2. Determine that one or more of the three projects are not eligible for rider recovery.

3. Determine that none of the projects are eligible for rider recovery.

Buffalo Ridge Restoration Project

4. Determine that Buffalo Ridge Restoration Project is not eligible under Minn. Stat § 216B.1645 for recovery in the TCR rider.

5. Determine that Buffalo Ridge Restoration Project is eligible under Minn. Stat § 216B.1645 for recovery in the TCR rider. (Xcel, DOC)

CapX2020 Bemidji Project Cost Cap

6. Affirm that projects being recovered in the TCR rider are subject to a cost cap and determine that the cost cap for the Bemidji project is $74 million. (DOC)

7. Affirm that projects being recovered in the TCR rider are subject to a cost cap and determine that the cost cap for the Bemidji project is $82.7 million. (Xcel alternative)

8. Determine that a cost cap does not apply to the Bemidji project and allow rider recovery of Xcel's 26.2% of the forecasted total cost of $116.38 million. (Xcel)

Capitalized Internal Costs

9. Determine that the capitalized internal costs of approximately $1.5 million will not be allowed to be recovered in the TCR rider. (DOC)

10. Determine that the capitalized internal costs of approximately $1.5 million will be allowed to be recovered in the TCR rider. (Xcel)

Costs included in the 2011 Tracker True-up

11. Determine that the tracker true-up should only include costs for projects approved for recovery in the preceding filing for the year being trued-up. Disallow recovery of the costs added to the 2011 tracker true-up for the Buffalo Ridge Restoration Project and base rate adjustment, the Pleasant Valley-Byron and Glencoe-Waconia projects because the inclusion results in retroactive ratemaking.

12. Determine that the adjustment for the Buffalo Ridge Restoration Project should not be included in the 2011 tracker true-up but can be recovered as part of the 2012 allowed costs. (DOC)

13. Allow the recovery of the 2011 costs related to Buffalo Ridge Restoration Project and base rate adjustment, the Pleasant Valley-Byron and Glencoe-Waconia projects can be recovered by inclusion in the 2011 tracker true-up. (Xcel)

Projects included for 2012 Moved into Base Rates for 2013

14. Allow the unrecovered portion of the 2012 revenue requirement for the Chisago/Apple River Project, CapX2020 Bemidji Project, Pleasant Valley – Byron Project, Buffalo Ridge Restoration Project (subject to its inclusion in the rider) to remain in the rider for recovery.

15. Determine that the unrecovered portion of the 2012 revenue requirement for the Chisago/Apple River Project, CapX2020 Bemidji Project, Pleasant Valley – Byron Project, Buffalo Ridge Restoration Project (subject to its inclusion in the rider) be recovered as part of a rate case.

Customer Notice

16. Approve the Company's proposed Customer Notice.

17. Deny the Company's proposed Customer Notice.

Other

18. Require that Xcel make a compliance filing due 10 days after the Order that updates the 2011 and 2012 tracker accounts, the rider factors, tariff sheets and any other appropriate schedule to reflect the decisions made in this docket.

Recommendation

Staff recommends 1, 4, 6, 9, 11, 14, 16, and 18.