Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: May 21, 2015 .... ** Agenda Item # **7**

Company: Xcel Energy

Docket No. E-002/M-14-852

In the Matter of Xcel Energy's 2015 Transmission Cost Recovery Rider Petition

Issue: Should the Commission approve Xcel Energy's 2015 Transmission Cost Recovery rate rider factors which reflect the 2015 TCR revenue requirement?

Staff: Ann Schwieger ....(651) 201-2238
Bob Harding ....(651) 201-2237

Relevant Documents

Xcel Energy – Initial Filing .... October 1, 2014
Office of Attorney General - Comments .... December 31, 2014
Department of Commerce - Comments... January 5, 2015
Department of Commerce – Comments Trade Secret .... January 5, 2015
Xcel Energy – Reply Comments .... January 12, 2015
Xcel Energy – Supplemental Filing .... May 1, 2015
Department of Commerce – Supplemental Comments .... May 8, 2015

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May 14, 2015

Statement of the Issue

Should the Commission approve Xcel Energy's 2015 Transmission Cost Recovery (TCR) rate rider factors which reflect the 2015 TCR revenue requirements?

Introduction

Over the course of the comment period, the interested parties reached a consensus on all of the issues raised in the filing:

- Xcel, the Department and the OAG agreed that cost recovery of the Couderay to Osprey project and the Big Stone to Brookings project should not be allowed until after the term of the Company's MYRP expires.
- Xcel and the Department agreed that it is premature to act in this docket on the basis of pending MISO regional ROE complaint, in FERC Docket EL14-12-000, filed against MISO and certain MISO Transmission Owners (TOs) and agreed to wait until FERC makes its decision before deciding on a course of action.
- Xcel and the Department agreed upon the proper amount of escalation of costs to use for the CapX2020 La Crosse projects. The Department and Xcel agreed that costs for the CapX2020 La Crosse projects should be escalated and capped at $295.8 million, resulting in a cost cap of $969.5 million for all three of the transmission projects being recovered through the rider.

Background

<u>October 1, 2014:</u> Xcel Energy submitted its Petition requesting approval of its 2015 Transmission Cost Recovery rate rider factors, which reflect the TCR revenue requirements for 2015. The revenue requirement as calculated in this Petition includes five previously included CapX2020 projects and MISO Regional Expansion and Criteria Benefits (RECB) forecasted costs and revenues. The Company is asking the Commission to:

- Approve the 2015 revenue requirement of $65.8 million for the projects eligible for recovery through the TCR rider;
- Approve an increased cost cap for the La Crosse project based on reasonable escalation rates;
- Approve the resulting TCR adjustment factors by class to be included in the resource adjustment on bills for Minnesota electric customers for the 12 months beginning January 1, 2015;
- Approve the 2014 Tracker True-up and Tracker Balance report and carryforward of the 2014 tracker balance;
- Approve the proposed TCR tariff sheet and proposed customer notices; and
- Provide direction on the cost recovery method and timing for two TCR eligible transmission projects located out of state, the Couderay to Osprey project, located in Wisconsin and the Big Stone to Brookings project, located in South Dakota.

December 31, 2014: The Minnesota Office of the Attorney General – Residential Utilities and Antitrust Division (OAG) submitted comments and objected to the Commission allowing cost recovery of the Couderay to Osprey and Big Stone to Brookings projects through the TCR rider at this time. The OAG objected based on Xcel's commitment in its most recent rate case to not seek rider recovery for any new projects through the TCR rider during the duration of its Multi-Year Rate Plan (MYRP).

January 2, 2015: The Department submitted its comments and recommended the Commission:

- Deny recovery of the revenue requirements associated with the Couderay to Osprey and Big Stone to Brookings projects in the 2015 rider. The Company can propose recovery of these projects after the term of its MYRP expires;
- Allow Xcel to recover at least $950.2 million in its 2015 TCR rider if the Commission views the three segments of the CapX2020 separately. If the Commission views the CapX2020 segments as one project from one Certificate of Need (CN) proceeding, the Commission should allow Xcel to recover $969.5 million; and
- Deny recovery of any changes to revenues collected by MISO and passed on to Xcel associated with wholesale transmission costs and revenues recovered through Xcel's base rates as a result of the pending ROE action at FERC.

January 12, 2015: Xcel submitted reply comments and asked the Commission to approve its Petition as originally filed, with the exception that the Company's request for recovery of future reductions in the MISO ROE be tabled at this time.

May 1, 2015: Xcel Energy submitted a supplemental filing to reflect decisions made in the Company's MYRP. Xcel stated that it is both reasonable and consistent with precedent for the Commission to approve $969.5 million of CapX2020 project costs

May 8, 2015: The Department reviewed Xcel's supplemental filing and agreed that Xcel's updates to the rate of return and the jurisdictional allocators are consistent with the Commission's decisions in Xcel's MYRP. The Department stated it would like to withdraw its earlier recommendation that the Commission allow Xcel to recover at least $950.2 million in its 2015 TCR rider. The Department is recommending the Commission allow Xcel to recover the requested $969.5 million and the 2015 revenue requirement associated with that level of capital expenditures.

Transmission Cost Recovery Statute

The Transmission Statue (Minn. Stat. §216B.16, subd. 7b) was enacted by the Legislature in 2005 and authorizes the Commission to approve a tariff mechanism (rider) for an adjustment of charges for costs associated with eligible utility investments in transmission facilities.

The statute was amended in 2008 to allow the rider to include the costs of certain regional transmission facilities as determined by MISO to be RECB projects. The RECB costs and revenues are reflected in the rider through MISO Schedules 26 and 26A revenues and expenses which are billed under a FERC electric tariff.

The statute was amended again during the 2013 Legislative session to allow Companies to recover the costs of their own transmission projects located outside of Minnesota if they are approved by the regulatory commission of the state in which the facilities are located and determined by MISO to benefit the utility or the integrated transmission system.

In the past, Xcel's TCR rider has included projects eligible for rider recovery under the Renewable Statute and the Greenhouse Gas Statute for recovery under one mechanism and deemed the TCR rider. In this Petition, Xcel has included only projects eligible for recovery under the Transmission statute.

The Transmission Cost Recovery Petition

On October 1, 2014, Xcel Energy filed a Petition and requested recovery of the 2015 revenue requirements associated with five previously approved CapX2020 projects and Schedule 26 and 26A MISO forecasted costs that the Commission has deemed as eligible for recovery under the TCR rider. The five projects being constructed by the NSP System are:

- CapX2020 Brookings – Twin Cities
- Glenco - Waconia
- CapX2020 Fargo – Twin Cities
- CapX2020 La Crosse – Local
- CapX2020 La Crosse - MISO
- CapX2020 La Crosse – WI

On May 1, 2015, the Company submitted a supplemental filing to reflect the decision made in its MYRP. The Company estimated the revenue requirement to be collected from Minnesota ratepayers at $63.8 million and is proposing to recalculate and collect the rates over the remaining months of 2015, pending the date of the Commission's decision. Table 1 shows the change in revenue requirement between the initial petition and the supplemental filing.

Table 1: Updated 2015 TCR Revenue Requirement

	2015 Revenue Requirement
Initial Petition	$65,787,710
ROR	(1,609,741)
Jurisdictional Allocators	(355,710)
Supplemental Petition	**$63,822,259**

Table 2 shows the proposed 2015 adjustment factors and revenue requirements as compared to the factors that were implemented on September 1, 2014. The Company noted the increase in the revenue requirement has increased from the last approved level because eligible transmission projects have advanced in the construction process.

Table 2: Adjustment Factor Comparison

	2014 Approved	2015 Proposed
Total Revenue Requirements	$36.9	$63.8
Residential Rate/kWh	$0.001153	$0.002612
Commercial Non-Demand/kWh	$0.001095	$0.002481
Demand /kW	$0.321	$0.731

In addition to allowing the Company to recover the costs of transmission projects being constructed by the NSP System, the Transmission Statute allows TCR rider recovery of charges billed under a federal tariff (such as the MISO Tariff) associated with other transmission expansions being constructed in the MISO region by other utilities. These expenses and revenues are based on Schedule 26 and 26A of the MISO Tariff.

As shown in Table 3, the 2015 RECB expenses are forecasted at $97.4 million. The Company expects these charges to be offset by $135.9 million in Schedule 26 and 26A revenues from MISO tariffs associated with regional rate recovery of NSP System project investments. The forecast results in net estimated Schedule 26 and 26A revenues to NSP (negative revenue requirements) of $38.5 million (total NSP System). These revenues were further adjusted by an allocation to NSPW and other Company jurisdictions to arrive at the Minnesota jurisdiction of net RECB revenue of $28.6 million as shown in Table 3. In Xcel's case the RECB Revenue Requirement provides a benefit to its Minnesota ratepayers as the $28,482,479 is a credit to ratepayers and causes a reduction of the overall revenue requirement.

Table 3: RECB Revenue Requirement

	2015 Forecast
Schedule 26 Revenue	$76,998,712
Schedule 26A Revenue	58,877,650
Schedule 26 & 26 A Revenues	**$135,876,362**
Schedule 26 Expenses	$71,773,149
Schedule 26A Expenses	25,611,756
Net Schedule 26A	**$97,384,905**

	2015 Forecast
NSP System Revenue Requirement	**($38,491,457)**
Minnesota Allocator	74%
MN RECB Revenue Requirement	**($28,482,479)**

The Company is requesting the Commission approve a true-up of $7,567,665. The true-up represents an under collection of the Companies 2014 revenue requirement and is shown in Table 4.

Staff notes that the 2014 true-up has had a significant increase in this filing. The Commission may want to ask the Company as to why the true-up has increased in this filing.

Table 4: 2014 True-up

	2014 Forecast
Revenue Requirement	$31,213,483
Revenue Collections	23,645,818
True-up to 2015	$7,567,665

Projects Eligible for TCR Recovery but Not Included in Calculations

The Company asked the Commission to provide guidance as to how and when to recover the costs for two new out of state transmission NSP System projects, the Couderay to Osprey project located entirely in Wisconsin and the Big Stone to Brookings project located entirely in South Dakota. The revenue requirement for these two projects would be $3.5 million in 2015 and is forecasted at $7.5 million for 2016.

In between the time the Company initially filed its rate case and this rider, there was an amendment to the transmission cost adjustment statute under Minn. Stat. §216B.16, Subd. 7b. The statute was amended to allow recovery of out of state transmission costs for new transmission facilities approved by the regulatory commission of the state in which the facilities are located and determined by MISO to benefit the utility or the integrated transmission system. Xcel Energy also noted as part of its MYRP, the Company made a commitment not to add any new projects to the TCR rider during the test year and during the 2014-2015 MYRP.

The Company, the Department and the OAG are in agreement that the Couderay to Osprey project and the Big Stone to Brookings project would qualify for recovery under the amended statute. The Department and the OAG objected to Xcel including these projects in the rider based upon the Company's written commitment not to add new transmission projects to the TCR Rider during the MYRP.

The Department concluded that Xcel voluntarily committed to not recovering the costs of these two projects, or any other new projects for the duration of its MYRP and that the issue does not merit further discussion at this time.

The OAG argued that Xcel elected not to seek cost recovery of some projects through its MYRP or its TCR rider during the duration of the MYRP. The Commission's MYRP Order required the Company to analyze and propose the elimination or reduction of the use of rate riders as a condition for proposing a MYRP. Xcel accepted this circumstance in order to receive the benefits of the MYRP. This process promoted the Commission's goals of increasing administrative efficiency and rate stability. The OAG stated it recognizes the statutory change made after Xcel filed its MYRP is an unusual circumstance, but the circumstances do not adversely affect the Company or present a reason to alter its commitment.

In its reply comments, the Company stated that it understands the reasons behind both the Department and the OAG's recommendation that these projects should not be allowed in the 2015 TCR rider. The Company stated it is not expecting approval of these costs in advance of its 2016 TCR filing.

Pending MISO ROE Decision at FERC

In November 2013, a group of industrial customers in the MISO region filed a complaint asking FERC to reduce the return on equity (ROE) used in the transmission formula rates of MISO transmission owners, including the NSP Companies. The filing asked for a reduction of the current ROE from 12.38% to 9.15% and to limit the equity capital ratio to 50%, unless an individual transmission owner can justify use of a higher equity ratio.

On October 20, 2014, FERC issued an Order and established hearing and settlement judge procedures in regards to the ROE portion of the complaint. The Commission found that the ROE issue could not be resolved based on the record before them and set the ROE element of the complaint for investigation and a trial-type evidentiary hearing. According to Xcel, a decision about the ROE is not expected until September 2016. The Commission ordered the refund date retroactive to November 12, 2013, the date the complaint was originally filed. The Commission declined the proposal to cap the capital structure ratio at 50% equity.

Wholesale transmission revenues and expenses are addressed in the TCR rider through MISO Schedules 26 and 26A which are calculated according to the terms of a FERC approved electric transmission tariff. Regional Expansion Criteria and Benefit (RECB) projects address generator interconnection and integration of renewables on a large scale. Multi Value Projects (MVPs) are projects that integrate remote and/or low carbon generation into the system. RECB and MVPs are accounted for in the rider through MISO Schedules 26 and 26A. The lower ROE would provide a benefit to Ratepayers because it would lower both the revenue requirement and expenses recovered within the rider. On the other hand, it would also decrease the revenues generated by transmission assets included in the rider. All parties agree, if the ROE is reduced than an adjustment would be made using a true-up within the rider.

The Company believes it would be reasonable to true-up any change to base rate wholesale transmission revenues and expenses that may occur as a result of the FERC ROE complaint for the following reasons:

- The complaint was filed after the Company filed its pending rate case;
- FERC took no action while the rate case record was open that would allow the parties to adjust the test year;
- The outcome of the FERC ROE complaint will not be known before the Commission issues a final order in the rate case in early 2015; and
- The FERC order could affect the Company's MISO transmission revenues and expenses for all of 2014 for reasons outside the Company's control.

The Company stated that allowing an adjustment to the TCR Rider would be consistent with Minn. Stat. § 216B.16, subd. 7(b), which allows the Commission to provide TCR Rider recovery of net transmission charges (expenses offset by revenues received and amounts charged to other regional transmission owners) under the MISO Tariff.

The Company is not proposing an adjustment to the TCR Tracker balance at this time, as the outcome of the FERC complaint proceeding is uncertain. They are raising the issue now because the proceedings at FERC could necessitate an adjustment to the 2014 TCR Tracker balance, which would then impact the 2014 carry-over amount and the resulting 2015 TCR revenue requirements.

The Department stated that Xcel is not concerned about the impact of a decrease in revenues related to transmission assets where costs are currently recovered through the TCR. As is the case with all riders, the risk associated with lower revenues than forecasted falls completely on ratepayers; shareholders are unaffected. Rather, Xcel is concerned as to the financial impact of the lower revenues associated with MISO services recovered through base rates. In its MYRP, Point to Point Service, Network Service and Joint Pricing Zone services under the MISO Tariff were calculated based on the MISO regional ROE of 12.38%. If FERC orders a change in the MISO ROE, the Company believes the appropriate recognition of this change would be to recognize the impact in the TCR Rider by including a true-up for all affected wholesale transmission revenue and expenses, including both the portion included in the TCR Rider and the portion included in base rates in the pending rate case. The wholesale revenue changes, net of expenses, would need to be reflected in the TCR Rider true-up for the Company to fully recover its costs through base rates.

Xcel's concern is that it calculated its rates in its current Multi-Year Rate Plan (Docket No. E002/GR-13-868) for 2015 assuming it would be receiving a FERC ROE of 12.38 percent, which Xcel credited against its forecasted 2015 retail revenue requirement. If the FERC ROE is subsequently decreased, Xcel is concerned that it would be crediting to retail ratepayers too much for the FERC ROE and Xcel's 2015 rates would not be sufficient to cover its forecasted net revenue requirement for 2015.

In response to the Department's informational request, Xcel explained that a worst case scenario of the impact on NSP for 2015 would be a $7.5 million shortfall in base rate revenue. The Company estimated the total impact of FERC making a decision retroactive to November 2013 would be a $15.2 million shortfall in base rate revenue.

In another informational request, the Department asked the Company to identify situations where the Commission has allowed a utility to recover the change in a base rate revenue requirement through a rider. In response the Company and the Department identified three cases[1] in which the Commission allowed Xcel to apply a true-up for production tax credits (PTC) through its Renewable Energy Standards (RES) rider. The Company had an estimated level of PTCs included in its base rates and was allowed to apply a true-up through the RES rider to account for the difference of the actual PTCs and the amount estimated in base rates.

The Department believes that the past Commission Orders with regard to the PTC are materially different in concept and situation when compared with the Company's current request to allow an ex post adjustment to the wholesale transmission revenues through the TCR Rider that are included in the base rates as proposed in this petition.

The Department stated it is difficult to accurately predict what the actual production will be when considering the base level of costs associated with the production of wind facilities. This is especially true when that facility is relatively new and production characteristics are not well known. The Department's recommendation of placing the costs of the wind generation into base rates in the 2008 rate case was driven by the fact that Grand Meadow was in service during the test year and as such, belonged in the base rate. The Department's recommendation however, recognized that there was significant uncertainty about the actual production levels. Additionally in the Docket E002/M-13-475, the RES PTC true-up, the fact was reinforced that the RES was the appropriate medium to true-up fluctuations in actual production from the base rate revenue requirements.

The Department noted that the proposal in this petition to include a true-up for affected wholesale transmission revenue and expenses through the TCR resulting from the FERC ROE decision fundamentally differs from the current RES/PTC true-up system. The PTC true-up included in the RES operates more like the Fuel Clause Adjustment (FCA), which enables regulated gas and electric utilities to adjust rates to reflect changes in the cost of energy delivered to customers from costs authorized by the Commission in the most recent rate case. The PTC true-up in the RES operates similarly to the FCA, as the base rate revenue requirements are based on energy production and the RES allows the true-up of actual costs of the wind generation. This was allowed due to the uncertainty in the level of production tax credits associated with wind facilities.

The Department stated that the Company's proposal to recover the difference in transmission revenues and expenses through the TCR that would result from FERC adjusting the MISO ROE is not a comparable proposition for several reasons. First, the change is not linked to energy

[1] Docket No. E-002/GR-13-868
Docket No. E-002/M-13-475
Docket No. E-002/GR-08-1065

production. Instead, it is a potential change to the business climate in which Xcel may operate in the future, and does not represent historical uncertainty and variation, which is the primary reason that PTCs are adjusted through the RES rider currently.

Second, allowing Xcel to charge higher rates for a future decision that may or may not be made by FERC is speculative. Although the timing of the FERC ROE announcement with respect to the current rate case for the Company may be unfortunate, it is no different than any other change to the business climate from which base rate revenue requirements are calculated, and does not share the same variable characteristics as the PTC/RES Rider.

As a result of this analysis, the Department recommended that Xcel not be authorized to true- up the portion of wholesale transmission revenue and expenses included in base rates the TCR as Xcel has requested.

Xcel responded that the timing of the complaint filed with the FERC is such that it would be reasonable to true-up any change to base rate wholesale transmission revenues and expenses that may occur as a result of the complaint. The complaint was filed at the FERC twelve days after Xcel's rate case was filed. Since the rate case was under a different schedule (set by the Commission) than the complaint filed with the FERC (where the FERC was not required to act on any specified timeframe), and there was no certainty what the FERC might do or when, the Company could not realistically propose an adjustment in the rate case. The record in the rate case stated only that a complaint had been filed. FERC took action on the complaint in October 2014, when the record in the rate case was essentially closed.

According to the Company, the ROE complaint is unlike other external business changes cited by the Department in that both the Commission[2] and the Department[3] took an active role seeking a reduction in the MISO regional ROE with the understanding that a change would affect wholesale revenues. Now that the ROE may be reduced retroactively, and NSP Companies' transmission revenues reduced retroactively, it seems reasonable for the Commission to consider a ratemaking mechanism that would recognize the potential impact of a reduced MISO regional ROE on the Company.

The Company stated it recognizes that it is difficult to assess its proposal in theory, without fully understanding the financial ramifications of the FERC complaint. As a result of the uncertainty surrounding the timing of the complaint, the Commission may prefer to table this issue until better information is available. The Commission could decide to not make a decision on this issue in the present TCR docket. In that case, the Company requests that the decision be made without prejudice to the Company seeking recovery (either in a future rate case or a future TCR Rider proceeding) of the difference between the 2014 test year revenues and the adjusted net revenues after a future FERC decision.

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[2] Filings signed by the Commission through the Organization of MISO States.

[3] Filings signed by the Department and regulatory agencies in other states through the Joint Public Interest Interveners.

Escalation of Costs

The Company has requested the Commission allow it to escalate costs for the CapX2020 La Crosse project. According to the Company, the Commission's 2010 TCR Order dated April 27, 2010 in Docket No. E-002/M-09-1048 set the standard for evaluation of TCR Project Costs going forward as follows:

> *"In setting guidelines for evaluating project costs going forward, the TCR project costs 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."*

Table 5 provides a comparison of the total investment expected by project in 2015 compared to the initial cost estimate provided to the Commission and the estimated project cost at completion.

Table 5 – Project Cost Estimates ($M)

Transmission Project	Cost Estimate Docket	Initial Cost Estimate	Projected Investment through 2015*	Estimated Project Cost at Completion*
CapX2020 Fargo – Twin Cities	CN-06-1115	$231.0	$213.9	$213.9
CapX2020 Brookings – Twin Cities	CN-06-1115	$523.9	$459.8	$462.2
CapX2020 La Crosse (MN, MISO, and Local)	CN-06-1115	$276.5	$295.8	$299.1
Total		$1,031.4	$969.5	$975.2

** Includes AFUDC as shown in Attachment 3 of the Company's filing.*

CapX2020 Fargo – The Fargo project has been completed and came in under the initial cost estimate presented in the CN proceeding.

CapX2020 Brookings –According to the CapX2020 website, the Brookings project was energized in March 2015. The project cost at completion was expected to be below the $523.9 million cost estimated in the Company's Certificate of Need proceeding.

CapX2020 La Crosse – The La Crosse project is expected to be completed in 2015. The La Crosse project's total estimated cost at completion has increased from the original cost estimate because of a design change to the Mississippi River crossing foundations. It was determined during construction that the foundations on both the Minnesota and Wisconsin sides of the crossing would need to be structurally enhanced to withstand eminent flooding and scour conditions caused by fluctuating river volumes. In addition, the Company examined the project in light of the galloping events seen on other portions of the CapX2020 projects. The Company was able to mitigate the galloping risk of the La Crosse project because it discovered the potential issues early enough in the construction process that the conductor design was changed to T2 (twisted pair). The change resulted in some increased costs, but enhanced reliability.

In comparing the initial cost estimate of the La Crosse projects to the forecasted costs in Table 5, costs are expected to reach investment levels through 2015 that exceed the level of costs initially estimated for the project. The Company's forecast of the initial cost estimates used in the Certificate of Need docket for the La Crosse project were stated in 2007 dollars. The Company has requested the Commission allow it to apply an escalation rate for the La Crosse project to adjust the cap to reflect current dollars.

The Company noted that in a prior filing the CapX2020 Bemidji project was forecasted to exceed its initial cap set in 2007 year dollars. The Commission approved $8.2 million of cost escalation from 2007 to 2012. This was a 14.74% increase, or approximately 2.8 percent per year. The escalation rates approved by the Commission for the Bemidji project were from the Handy Whitman index.

The Company stated it continues to believe that the appropriate escalator for transmission projects is the Handy Whitman index and is requesting approval to use the index to calculate a new cap for the La Crosse projects at this time. The Company stated it reviewed the Handy Whitman index values from 2012 to 2014 and did the same type of analysis that was done for the Bemidji project.

According to the Company, from 2012 to date, transmission construction costs have continued to rise and have shown an increase of approximately 5 percent to 2014. The result is that to bring the initial cost estimates for the CapX2020 projects from 2007 to 2014, a 17.78 percent cost increase of $49.2 million is needed to reflect the increase in construction costs. The increase reflects an average annual increase of just under 2.4 percent per year over seven years and increases the cost estimate to $325.7 million. If the Commission approves the proposed escalated cost cap of $325.7 million, the project is expected to be well under the cap at completion with an estimated cost of $299.1 million. This would be a $999.4 million cost cap for all three of the CapX2020 projects included in the TCR rider. Xcel's initial position is shown in Table 6.

Table 6 – Proposed Cost Cap ($M)

Transmission Project	Xcel Initial	Department Initial	Department & Xcel
CapX2020 Fargo – Twin Cities	$213.9	$213.9	$213.9
CapX2020 Brookings – Twin Cities	$459.8	$459.8	$459.8
CapX2020 La Crosse (MN, MISO, and Local)	$325.7	$276.5	$295.8
Total	$999.4	$950.2	$969.5

The Department did not dispute the concept of the Company calculating escalated cost caps in order to compare initial cost estimates to the costs of the projects based on the year in which the dollars were spent. The Department also agreed with Xcel's use of the Handy Whitman index.

The Department initially recommended that Xcel should be allowed to recover at least $950.2 million in its 2015 TCR for these projects, calculated as the sum of the projected investment for 2015 for the Fargo-Twin Cities and Brookings-Twin Cities segments, plus the initial CN estimate for the La Crosse segment as shown in Table 6. This would not allow any escalation of costs for the La Crosse project.

The Department presented an alternative that if the Commission chose to view the CapX2020 segments as one project from one CN proceeding, the Commission could allow Xcel to recover $969.5 million. According to the Department its recommendation reflects that the cost savings for the Fargo and Brookings segments offset the cost overrun for the La Crosse segment.

Xcel stated that while they appreciate the Department's discussion of two cost recovery options, it is both reasonable and consistent with precedent for the Commission to permit recovery of $969.5 million of CapX2020 project costs through this proceeding.

The Company stated the Department provided no rationale in its initial recommendation for why they are not reflecting any escalation impact on the estimated construction costs for the La Crosse Project. Additionally the Department did not support its position as to why it would be reasonable for the Commission to base the project cost cap on 2007 year dollars in contradiction to its past approach of setting cost caps. If escalation is included, as the Commission has previously approved, the cost cap for the La Crosse Project should be set at $330.3 million. Both the Company's requested level of cost recovery through 2015 ($295.8 million) and the Company's estimated cost at completion of the La Crosse Project ($299.1 million) are well below the escalated level of cost that would be appropriate to use as a cost cap for the project.

The Company believes the Commission should accept the Department's alternative recommendation that allows full recovery of the additional $19.3 million of costs for the CapX2020 345 kV projects and continues to request full recovery of its costs as identified in the petition.

In its supplemental comments, the Department stated that it is withdrawing its initial recommendation to allow Xcel to recover $276.5 million for the La Crosse project, or $950.2 million for all three projects being recovered in the Rider. The Department agreed with the Company's position to allow a cost cap of $295.8 million, or a total of $969.5 million for all three projects.

Compliance Filing

Xcel's initially proposed revenue requirement to be recovered in the TCR rider for 2015 was $65,787,710. In a supplemental filing, the Company updated its forecast to reflect decisions made in its MYRP and the revenue requirement was reduced to $63,822,259. The decisions made by the Commission on the issues in this docket may also modify the 2015 TCR revenue deficiency and the 2014 true-up. 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 update forecasted numbers with actual numbers through April 2015. The Company would need to submit revised rider factors and tariff sheets reflecting those rates.

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 need to be revised by the Company to comply with the Commission's final order in the proceeding.

Proposed Customer Notice

The Company plans to provide notice to customers regarding change in the TCR Adjustment Factors reflected in their monthly electric bill. The following is the Company's proposed language to be included as a notice on the customers' bill the month the TCR Adjustment Factors are 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 $0.002692 per kWh for Residential Customers; $0.002557 per kWh for Commercial (Non-Demand) customers; and $0.754 per kW for Demand billed customers. Questions? Contact us at 1-800-895-4999.*

The proposed customer notice will need to be updated to reflect the Commission's final decisions in this matter.

<u>**Staff Analysis**</u>

TCR Revenue Requirement and Resulting Rates

The Company calculated a revenue requirement of $63,822,259 and requested recovery from January 2015 – December 2015. The TCR rate factors were calculated based on 12 months of energy sales. An order in the matter may not be issued immediately and this reduces the recovery period to six or seven months (starting in June or July). It would also reduce the amount of energy sales that would be used as the basis for the recalculated TCR rate factors unless the Commission decides otherwise. Due to concerns about the large increase in the TCR rate factors over a shortened period of time, the Commission may wish to consider lengthening the time period to twelve months over which the TCR costs would be recovered.

Decision Alternatives

<u>2015 TCR Revenue Requirement</u>

1. Approve the 2015 proposed revenue requirement of $63,822,259 for recovery through the TCR rider. (The revenue requirement may fluctuate up or down when the Company updates its forecasted numbers with actual numbers.) A large change in the revenue requirement would be brought to the Commission's attention. (Xcel, DOC)

2. Do not approve the proposed revenue requirement.

<u>True-up and Tracker</u>

3. Approve the 2014 TCR True-up and Tracker balance report and carryforward of the 2014 tracker balance. (The true-up may fluctuate up of down when the Company updates its forecasted numbers with actual numbers.) A large change in the revenue requirement would be brought to the Commission's attention. (Xcel, DOC)

4. Do not approve the 2014 TCR Tracker True-up and Tracker balance report and carryforward of the 2014 tracker balance.

<u>2015 TCR Adjustment Factors</u>

5. Approve the resulting TCR Adjustment Factors by class to be included in the Resource Adjustment on bills for Minnesota electric customers beginning June (<u>or</u> July) 2015. (Xcel, DOC)

    A. Authorize Xcel to recalculate the TCR adjustment factors based on the seven (<u>or</u> six) remaining months of 2015. <u>OR</u>
    B. Authorize Xcel to recalculate, as needed, the TCR adjustment factors based on a twelve month period. <u>OR</u>
    C. Authorize Xcel to recalculate the TCR adjustment factors based on some other length of time.

6. Do not approve the resulting TCR Adjustment Factors by class to be included in the Resource Adjustment on bills for Minnesota electric customers for the 12 months beginning January 1, 2015.

Tariff Sheets & Customer Notices

7. Approve the Company's proposed revised tariff sheet and proposed customer notice. (The TCR adjustment factors in the tariff and proposed customer notice may fluctuate up or down based on the Commission's decisions.) (Xcel, DOC)

8. Do not approve the Company's proposed revised tariff sheet and proposed customer notice. (The TCR adjustment factors in the tariff and proposed customer notice may fluctuate up or down based on the Commission's decisions.)

Compliance Filing

9. Require the Company to submit a compliance filing updated to reflect the Commission's decisions in the Order and updating the forecasted numbers with actual numbers within 10 days from the date the Commission's Order is issued. (Xcel, DOC)

10. Do not require the Company to submit a compliance filing updated to reflect the Commission's decisions in the Order and updating the forecasted numbers with actual numbers within 10 days from the date the Commission's Order is issued.

Eligibility of the Couderay to Osprey & Big Stone to Brookings Projects

11. Determine the Couderay to Osprey and Big Stone to Brooking projects are eligible for recovery in the 2015 TCR rider under the 2013 amendment to Minn. Stat. §216B.16 Subd. 7b. (Xcel, DOC)

12. Determine the Couderay to Osprey and Big Stone to Brooking projects are not eligible for recovery in the 2015 TCR rider under the 2013 amendment to Minn. Stat. §216B.16 Subd. 7b.

13. Xcel has withdrawn its request to include the Couderay to Osprey and Big Stone to Brookings projects in its 2015 TCR. Take no action on whether the two projects are eligible for recovery in the 2015 rider. (Xcel, DOC, OAG)

Adjustments for Changes in the MISO ROE

14. Determine that should the FERC order a change in the MISO ROE, the appropriate recognition of this change would be to recognize the impact in the TCR rider by including a true-up for affected wholesale transmission revenue and expenses, including both the portion included in the TCR rider and the portion included in base rates from the Company's most recent rate case (Docket No. E-002/GR-13-868) (Xcel, initial recommendation)

15. Determine that should the FERC order a change in the MISO ROE, the appropriate recognition of this change would be to recognize the impact in the TCR rider by including a true-up for all affected wholesale transmission revenue and expenses included in the TCR rider only. And

    Do not allow Xcel to recover any changes to revenues collected by MISO and passed on to Xcel associated with wholesale transmission costs and revenues recovered through Xcel's base rates as a result of FERC's actions in FERC Docket No. EL14-12-000. (DOC, initial recommendation)

16. Take no action on future rate adjustments for changes in the FERC authorized MISO ROE (retroactive to November 12, 2013) and make the decision in this docket without prejudice to the Company seeking recovery (either in a future rate case or a future TCR rider proceeding) or the Department seeking a refund (either in a future rate case or a future TCR rider proceeding) until after a FERC decision in FERC docket EL14-12-000. (Xcel, DOC)

Escalation of the Cost Cap for the LaCrosse Project

17. Escalate the costs to increase the cost cap for the La Crosse project using the Company's initial recommended escalation amount of $330.3 million. This represents a cost cap of $999.4 million for the three projects that are being recovered through the rider. (Xcel, initial recommendation)

18. Escalate the costs to increase the cost cap for the La Crosse project using the Department's recommended escalation amount of $276.5 million. This represents a cost cap of $950.2 million for the three projects that are being recovered through the rider. (Department, initial recommendation)

19. Escalate the costs to increase the cost cap for the La Crosse project using the $295.8 million agreed upon by the Department and Xcel. This represents a cost cap of $969.5 million for the three projects that are being recovered through the rider. (Xcel, DOC)

Staff Recommendation
1, 3, 5, 7, 9, 13, 16, 19