BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

David C. Boyd	Chair
J. Dennis O'Brien	Commissioner
Thomas Pugh	Commissioner
Phyllis A. Reha	Commissioner
Betsy Wergin	Commissioner

In the Matter of the Northern States Power Company, a Minnesota Corporation, d/b/a Xcel Energy, for Approval of a Modification to its TCR Tariff, 2010 Project Eligibility, TCR Rate Factors, Continuation of Deferred Accounting and 2009 True-up Report

ISSUE DATE: April 27, 2010

DOCKET NO. E-002/M-09-1048

ORDER APPROVING 2010 TCR PROJECT ELIGIBILITY AND RIDER, 2009 TCR TRACKER REPORT, AND TCR RATE FACTORS

PROCEDURAL HISTORY

On September 3, 2009, Xcel filed its request for approval of the 2010 transmission cost recovery (TCR) project eligibility, TCR rate factors and 2009 true-up.

On December 4, 2009, the Office of Energy Security of the Minnesota Department of Commerce (OES) filed initial comments, recommending approval of Xcel's petition with modifications.

On December 4, 2009, the Minnesota Chamber of Commerce (the Chamber) and Gerdau Ameristeel US, Inc. and Marathon Petroleum Company, LLC (Xcel Large Industrials, or XLI) filed comments. On February 25, 2010, the Chamber filed reply comments.

On January 19, 2010, Xcel filed reply comments.

On March 10 and 15, 2010, the OES filed reply comments.

On April 1, 2010, the Commission met to consider the matter.

FINDINGS AND CONCLUSIONS

I. Background

Minn. Stat. § 216B.16, subd. 7b, adopted during the 2005 legislative session, authorizes recovery of costs, through an automatic adjustment mechanism, for the Minnesota jurisdictional costs of new transmission facilities that have been 1) separately filed and reviewed and approved by the Commission under Minn. Stat. § 216B.243, or are certified as a priority project or deemed to be a priority transmission project under Minn. Stat. § 216B.2425; and 2) charges incurred by a utility

that accrue from other transmission owners' regionally planned transmission projects that have been determined by the Midwest Independent Transmission System Operator, Inc. (MISO) to benefit the utility, as provided for under a federally approved tariff. Minn. Stat. § 216B.1645 allows for recovery through an automatic adjustment mechanism of all investments or expenditures entered into by a public utility in connection with satisfying renewable energy mandates of the Legislature.

On November 20, 2006, the Commission issued an Order approving Northern States Power Company's (Xcel's) petition proposing a new transmission cost recovery (TCR) rider to replace the existing renewable cost recovery (RCR) rider and reflect changes required by Minn. Stat. § 216B.16, subd. 7(b).[1] Since 2006, Xcel's TCR tariff has twice been modified to include costs allowed recovery by law.

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.

III. Project Eligibility for TCR Rider Recovery

Xcel requested its TCR rider rate factor for 2010 be updated to reflect costs for four projects that are part of the CapX 2020 transmission line request for recovery under the TCR statute, and two additional lines for recovery under the RCR statute. No party raised objections to project eligibility as to the projects, and the Commission has previously authorized inclusion of costs in Xcel's TCR rider for each project.

IV. Determination of 2010 Minnesota Revenue Requirements

A. New Project Costs

1. TCR Project Costs

Xcel requested the TCR rider rate factor for 2010 be updated to reflect costs for four project that are part of the CapX 2020 transmission line: CapX Fargo, Brookings and LaCrosse (345 kV lines) and Bemidji (230 kV line). The Commission has previously authorized inclusion of costs in Xcel's TCR rider for each of these projects. Xcel requested approval to recover approximately $3.5 million in 2010 for the four projects.

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[1] *In the Matter of Northern States Power Company d/b/a Xcel Energy's Petition for Approval of a Transmission Cost Recovery Rider*, Docket No. E-002/M-06-1103, Order Approving Transmission Cost Recovery Rider (November 20, 2006). The Commission approved the TCR rider with the condition that Xcel maintain a separate tracker account for projects approved under the renewable cost recovery statute and those approved under the transmission cost recovery statute.

Xcel stated that CapX participants have the right, but not the obligation, to take ownership up to the identified project development percentages, with final ownership determinations to be finalized by summer – fall of 2010. Therefore, the costs included in its proposed 2010 revenue requirement reflect the Company's minimum ownership percentage.

a. Cap X Fargo, Bemidji, and LaCrosse Projects

The OES recommended approval of cost recovery at the minimum ownership levels for the Fargo and LaCrosse 345 kV lines, and the Bemidji 230 kV line, with the 2010 revenue requirement for each project set as follows: Fargo - $499,057; Bemidji - $276,540; and LaCrosse - $799,843.

The Commission concurs with the OES that cost recovery at the minimum ownership level for the CapX Fargo, LaCrosse and Bemidji line is reasonable, and will so approve.

b. Brookings Project

Xcel estimated its costs of the Brookings project for 2010 were $1,946,057. However, Xcel stated that cost allocation of the Brookings project may change significantly because of the project's designation as a Generation Interconnection Project by MISO. Xcel explained that under the MISO current cost allocation tariff up to 50 percent of the project costs could be borne by the CapX utilities, and the remaining 50 percent by the generators for whom the line is providing interconnection. MISO has proposed to the Federal Energy Regulatory Commission (FERC) to modify this tariff to allocate 90 percent of the costs of network upgrade facilities at 345 kV or higher to the generators and 10 percent to the transmission users.

Xcel stated that the generators who will actually use the Brookings project are currently unknown, and none of the generators identified by MISO as requiring the project's completion in order to interconnect has signed an interconnection agreement under which they have agreed to bear the allocated cost. Xcel stated that the outcome of the MISO process may have a significant impact on the final allocation of costs to Xcel and other MISO members.

In reply comments, Xcel acknowledged the uncertainty of final cost allocations, but argued that its portion of whatever allocation is assigned to the Company will be more than its currently requested recovery. Xcel also updated its revenue request, based on actual rather than estimated expenditures through April of 2009, and updated its MISO formula transmission rate effective January 1, 2010. The two updates reduced the revenue requirement for the Brookings project from approximately $1.9 to $1.2 million. Xcel argued that the reduced recovery request for the Brookings project should proceed, as ratepayers will be protected from over-recovery through the annual true-up process.

The OES recommended denial of recovery for costs associated with the Brookings CapX line. OES argued that until a final determination of the allocation of costs among the transmission system users is determined, recovery of any amount from ratepayers would be premature, and should be rejected.

The Commission concurs with the OES, that it is speculative and premature to commence rate recovery on the Brookings CapX line at this point. While the Company suggests that its more

conservative request for cost recovery of $1.2 million should justify inclusion of the Brookings project in its 2010 revenue requirement, the Commission does not agree. Allowing Xcel to recover costs from its ratepayers at this time could potentially have an impact on a subsequent proceeding regarding ownership and cost responsibility for the project. Therefore, the Commission will not take action as to cost recovery for the Brookings project in 2010, due to the continuing uncertainty related to the MISO process and its impact on the final level of cost allocations among the various participants.

2. RCR Projects

a. Nobles Project

The Nobles Wind Farm is a 201 MW wind project located on the Buffalo Ridge in Nobles County, Minnesota Xcel requested recovery of $9.3 million in costs of substation upgrades, which include new 115-34.5 kV transformers and breakers, and substation bus work. OES recommended approval.

The Commission finds such recovery reasonable, and will so approve.

b. Blue Lake-Wilmarth

The Blue Lake-Wilmarth 345 kV transmission line is a 54-mile line and associated substation equipment, intended to increase the line capacity to accommodate additional wind generation in southwestern Minnesota. Xcel initially requested recovery of costs estimated to be approximately $6 million related to upgrades. Xcel stated that it expects that the line will be in-service by the end of 2009. Actual project expenditures were approximately $6.5 million as of August 21, 2009, and the Company's latest cost estimate was for $7.7 million. Xcel explained the overage as due primarily to swampy worksite conditions, which required increased construction labor costs of some $800,000. In addition, replacement of poles, due to significant rot, increased costs by an additional $400,000.

In reply comments, the Company stated that capital projects always encounter unexpected issues with equipment and facilities. Further, it argued that as it purchases treated wood poles that under normal conditions are reasonably expected to last 50 years, it could not reasonably have expected the poles to have deteriorated to the extent they had.

The OES recommended that the Commission allow Xcel to recover only the amount of the original estimate of $6 million. OES asserted that Xcel had failed to provide an adequate explanation of why the costs should be recovered. More importantly, OES asserted that it is inappropriate to allow significant cost increases to flow automatically through rates. In its reply comments, the OES proposed that the Commission authorize recovery of project costs consistent with OES's proposal in the Renewable Energy rider docket,[2] calendared for Commission consideration on the same date.

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[2] *In the Matter of the Petition of Northern States Power Company, a Minnesota Corporation, for Approval of the 2010 Renewable Energy Standard Cost Recovery Rider and 2009 Renewable Energy Standard Tracker Report*, Docket No. G-004/M-09-1083, Order Approving 2010 RES Rider and 2009 RES Tracker Report, Establishing 2010 RES Charge, and Requiring Revised Tariff (April 2010).

OES expanded on its concerns about the reasonableness of utilities passing through significant costs to ratepayers through rider filings, particularly when costs of projects recovered in riders increase from initial cost estimates used. OES explained that the annual true-up process might not provide a utility with the necessary incentive to minimize costs that the utility would otherwise have if recovery occurred through a rate case proceeding. The OES recommended that the Commission allow Xcel to recover through its riders only the costs originally indicated for the projects, with no deferred accounting, but with the opportunity to seek recovery of excluded costs on a prospective basis in a subsequent rate case.

The Commission concurs with the OES, and will at this time authorize only the $6 million of the Company's original estimate. The Commission recognizes, however, that this leaves the Company with unrecovered costs. The opportunity to seek recovery of the excluded costs on a prospective basis will be addressed infra, at Section V.

B. Existing Project Cost Changes

In its June 25, 2009 Order in Xcel's 2009 TCR filing, the Commission ordered the Company to provide a variance analysis and explanation of any project cost change (increase or decrease) of the smaller of 10 percent or one million dollars in its future TCR filings.[3] Three existing projects have cost variances that meet the Commission's Order: BRIGO wind project, 825 wind project, and the Chisago/Apple River project.

Xcel stated that its current cost estimate for the BRIGO project is $3.7 million lower (or six percent) than previous forecasts due to the deferral of construction of the Hazel Creek Substation.[4] Xcel projected the 825 Wind Project will be $ 3.0 million, or one percent over its previous forecast due to approximately $2 million in additional right-of-way and crop damage settlement costs, and increases in the actual cost of fuel for construction and raw materials of approximately $1 million.

Xcel stated that two changes in the Chisago/Apple River project will add an estimated $4 million, or eight percent, to project costs. Xcel explained that the changes stem from Commission approval of the undergrounding of some distribution facilities for the City of Lindstrom[5] at an additional cost of $1.3 million, and a request by the City of Taylors Falls to place some facilities underground through a wetland area. Xcel originally estimated the costs of the Taylors Falls undergrounding to be approximately $2.7 million, but subsequently revised its estimate to $865,000.[6]

The OES recommended approval of cost recovery for the changes in costs related to the three existing projects as reasonable, and within the required variance analysis.

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[3] Docket No. E002/M-08-1284

[4] Xcel stated that the Hazel Creek Substation is currently being considered as part of the facilities needed for the Brookings Project.

[5] Efforts to mitigate the line's impact on the City of Lindstrom by placing some distribution lines underground, approved in Docket No. E002/TL-06-1667, will add an estimated $1.3 million to the cost of the line. See also June 30, 2008 addendum to original permit in Docket No. E-002/TL-06-1667.

[6] On October 22, 2009, Xcel submitted a copy of the Army Corp of Engineers permit and a letter indicating that the permit for the facility required undergrounding of the facilities.

The Commission concurs with the OES, that the changes in costs related to the BRIGO wind project, the 825 wind project and the Chisago/Apple River project are reasonable and within the prescribed variance analysis. The Commission will so approve.

C. Rate of Return

The Commission will also adopt the recommendation of the OES, agreed to by Xcel, that the rate of return used in the revenue calculation should reflect the finally approved rate of return from Xcel's most recent electric rate case, or 8.83 percent overall.[7]

V. Standard for Evaluation of TCR Project Costs Going Forward

In its June 25, 2009 Order in Xcel's 2009 TCR filing, the Commission ordered Xcel, in future TCR filings, to provide a variance analysis and explanation of any project cost change (increase or decrease) of the smaller of 10 percent or one million dollars, akin to that provided by the Company in comments filed in support of its 2009 TCR filing.[8] In evaluating the TCR project cost changes in this docket, the Commission has utilized this analysis, in approving project cost changes for the BRIGO wind project, the 825 wind project, and the Chisago/Apple River projects. While this analysis has been useful, the Commission will require Xcel, in setting guidelines for evaluating project costs going forward, to eliminate this threshold and use of a variance analysis of changes in TCR project costs. Instead, the Commission finds that the additional experience gained in this docket, as well as the Renewable Energy Standard rider docket, and the recommendations of the OES, dictate that a different standard for evaluation of TCR project costs be utilized in the future.

The Commission recognizes that changes in a company's initial cost projections can occur for many reasons, some largely outside of a utility's control. Regardless of whether a project ends up being under or over budget, overall project expenditures need to be evaluated for reasonableness and prudence before being allowed permanent rate recovery. As it did in the RES rider docket considered on the same date as this case,[9] 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.

VI. The 2010 TCR Charge - Rate Design for Demand Billed Customers

A. Positions of the Parties

On December 4, 2009, two of Xcel's large industrial class customers, XLI and the Chamber filed comments, arguing for a change in the method used to charge Xcel's demand billed customers for

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[7] *In the Matter of the Application of Northern States Power Company d/b/a Xcel Energy to Increase Rates for Electric Service in Minnesota*, Docket No. E-002/GR-08-1065, Findings of Fact, Conclusions of Law and Order (October 23, 2009).

[8] Docket No. E002/M-08-1284.

[9] Docket No. G-004/M-09-1083, Order Approving 2010 RES Rider and 2009 RES Tracker Report, Establishing 2010 RES Charge, and Requiring Revised Tariff (April 2010).

the costs of the TCR rider costs assigned to the demand billed customer classes. Both XLI and the Chamber propose, consistent with the arguments raised in Xcel's recent electric rate case, a change in approach to rate design in riders. XCL and the Chamber recommend that, instead of an energy based TCR rider rate per kWh charge, demand billed customers should be charged their TCR rider cost assignment based on a per kW demand charge.

Xcel responded to the recommendation of XLI and the Chamber by stating that the Commission has continued to approve an energy based approach to rate design in its riders, which the Company has proposed and supported based on its simplicity. Xcel acknowledged, however, that changes could be made to calculate a demand-based TCR rider charge that would be applicable for demand-based customers.

Xcel indicated its willingness to work with the parties regarding rate design issues in the TCR rider, should the Commission wish the Company to explore alternative rate designs. Xcel requested that the Commission authorize implementation of its 2010 TCR rider on its proposed energy basis, but agreed to work with the parties regarding an appropriate rate design for the demand based customers class. Xcel agreed to return to the Commission with an alternative rate design or designs for Commission consideration.

B. Commission Action

The Commission has previously addressed the issues raised by the XLI and the Chamber, both in Xcel's last rate case as well as the Company's 2009 RES rider proceedings. In each proceeding, the Commission determined to retain the energy-only allocation of costs for the TCR and RES riders. In Xcel's last rate case, the Commission, in adhering to an energy only cost basis for the RES and TCR riders, recognized that for the time being, the advantages of simplicity predominate over the advantages of greater rate design rigor. In this proceeding, the Commission again is asked to address whether the rate design of its TCR rider on an energy-only basis remains appropriate, with the rising level of costs being directly passed through the rider to customers.

The Commission finds (as it did in the RES rider proceeding considered at the same hearing), that the record in this proceeding does not warrant a change from the current approach to the classification and treatment of Xcel's eligible TCR costs for purposes of the Company's 2010 TCR rider. Thus, the Commission will approve Xcel's recommendation, and continue to utilize a rate design methodology allocating within the demand-billed class a rate design using a straight energy methodology.

However, as recognized in the Company's last rate case, the cost/benefit analysis could change as the rider balances grow, and in particular, it may become appropriate to develop a demand-based charge for the transmission cost rider if significantly higher levels of costs continue to go through the rider. In this proceeding alone, Xcel requested that the annual costs recovered through the TCR rider during 2010 double by 2011.

Certainly, the issues related to energy/demand in the context of wind generation are complex and merit a continuing examination. The Commission, therefore, will direct the parties to collaborate in developing and exploring alternative rate design methodologies to the straight energy methodology used to date for the demand based Commercial and Industrial class. The Commission will examine such alternatives in Xcel's 2011 TCR rider filing.

In this regard, as one alternative approach, the Commission will require Xcel to include in its submission a proposal which reflects the allocation of the TCR rate adjustment based on a percentage of revenue basis, as a means to apply rider charges to customer bills.[10] The Commission will further require Xcel to supply calculations illustrating the comparative impacts on the customer classes and customers within the demand-billed classes.

Finally, the Commission will direct Xcel to recalculate the 2010 TCR rate factor at a level to collect the full revenue requirement for the year 2010 over the remaining months in 2010 following the date of this Order.

ORDER

1. The Commission approves the 2009 tracker compliance and true-up report.

2. The Commission approves Xcel's proposed TCR Rider revenue calculations with the following modifications:

    A. The Commission denies recovery for the Brookings CapX Project until cost allocation issues are resolved.
    B. The Commission approves recovery of the $9.3 million in Nobles Wind Farm Project costs.
    C. The Commission approves $6 million of the Blue Lake-Wilmarth Project costs.
    D. The Commission approves a decrease in the amount of project recovery of $3.7 million to the BRIGO wind project.
    E. The Commission approves an increase in the amount of project recovery of $3 million to the 825 wind project
    F. The Commission approves an increase of cost recovery for the Chisago-Apple River Project of $1.3 million for the undergrounding of distribution facilities at Lindstrom and $865,000 in cost recovery for underground facilities near Taylors Falls.

3. The rate of return used in the revenue requirement calculation is hereby set to reflect the finally approved rate of return (8.83% overall) from Xcel's electric rate case, Docket 08-1065).

4. 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.

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[10] To explain, if the rider charge represents a one percent increase in revenues, the methodology would simply add a one percent rider charge to customer bills. In this manner, the rate design of the rider charges would be similar to an interim rate increase in a rate case, with the final rate design resolved in a subsequent rate proceeding where the projects being recovered under the rate rider are moved to base rates.

5. Xcel's proposed methodology of collecting within the C&I classes consistent with current practice is approved. The Commission requests parties to work out an acceptable alternative or alternatives to be filed by the Company's next rider filing.

6. Xcel shall include 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 classes.

7. Xcel's request to recalculate the 2010 TCR rate factor as a level to collect the full revenue requirement for the year 2010 over the remaining number of months following the expected implementation date is approved.

8. Xcel shall file schedules of calculations modifying its 2010 TCR rate adjustment to reflect the above decisions. This information, including revised tariff pages, should be filed within 10 days of this Order.

9. The Commission approves Xcel's proposed customer notice, with necessary adjustment to the TCR factors to reflect the Commission Order.

10. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Janet K. Gonzalez for:

Burl W. Haar
Executive Secretary

(S E A L)

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STATE OF MINNESOTA)
)SS
COUNTY OF RAMSEY)

AFFIDAVIT OF SERVICE

I, Margie DeLaHunt, being first duly sworn, deposes and says:

That on the 27th day of April, 2010 she served the attached

ORDER APPROVING 2010 TCR PROJECT ELIGIBILITY AND RIDER, 2009 TCR TRACKER REPORT, AND TCR RATE FACTORS.

MNPUC Docket Number: E-002/M-09-1048

XX By depositing in the United States Mail at the City of St. Paul, a true and correct copy thereof, properly enveloped with postage prepaid

XX By personal service

XX By inter-office mail

to all persons at the addresses indicated below or on the attached list:

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Mary Swoboda
DOC Docketing
AG - PUC
Julia Anderson - OAG
John Lindell - OAG

Margie DeLaHunt

Subscribed and sworn to before me,

a notary public, this 27th day of

April, 2010

Robin L. Rice
Notary Public

ROBIN L. RICE
Notary Public-Minnesota
My Commission Expires Jan 31, 2014

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