

MEMORANDUM

To: Commissioners Fedorchak, Christmann and Kalk
From: Sara Cardwell *SC*
Date: November 22, 2016
Re: Briefing Memo for Informal Hearing, Case No. PU-16-658
NSP Transmission Facility Cost Recovery Rider

NSP filed its 2017 annual update of its Transmission Facility Cost Recovery (TCR) rate on September 30, 2016. On November 30, 2016, the Company will discuss its case in more detail at an informal hearing.

The purpose of this memo is to provide background on the Company's filing prior to the informal hearing. The filing requests approval of a 2017 TCR revenue requirement of \$6.7 million. The resulting per kWh rate is \$0.002961 and would increase the bill for a typical residential electric customer, using 750 kWh, by \$0.46 per month.

NSP is adding costs for one new transmission project called the Fossum (Minnkota Power Cooperative (MPC)) Interconnection Project in this filing. This project enlarges the Company's Prairie Substation to allow for MPC interconnection and increases the transmission system reliability in the area. The substation does not need to be physically expanded but there will be old equipment removed and new equipment installed.

On October 7, 2016, I sent the Company information requests. On October 17, 2016 the Company responded to these questions and resolved my concerns.

In regards to the industrial customer complaint at FERC regarding the return on equity (ROE) that was being used in the formula rates of MISO transmission owners, an order lowering the ROE was issued on September 28, 2016. The Company provided an estimate of the impact of this change for the October 2016 through December of 2016 period. The Company states that this impact would result in the need to increase the proposed revenue requirement by \$584,049 for a revised revenue requirement of \$7.3M, a revised per kWh rate of \$0.003220 and residential increase of \$0.66 for the typical residential customer using 750 kWh.

I recommended that the Company submit a revised filing to include this increase as I am concerned that if we wait to reflect this change, the effect on customer bills may only be higher. Changing the rate now, will lessen future increases. The Company will present information on this issue at the informal and the Commission can chose to wait until the total impact of the change in ROEs is known or agree that this change should be made.

My recommendation is that the Commission approve the Company's filing pending the revised filing is made and that it accurately reflects the currently known impact of the ROE change.

C: Dave Sederquist