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December 8, 2016

**--Via Electronic Filing--**

Darrell Nitschke, Executive Secretary  
North Dakota Public Service Commission  
State Capitol Building, Dept. 408  
600 East Boulevard  
Bismarck, ND 58505-0480

RE: INFORMATION REQUESTS AT TRANSMISSION COST RECOVERY (TCR) RIDER  
INFORMAL HEARINGS (CASE NO. PU-16-658)

Dear Mr. Nitschke:

Northern States Power Company, doing business as Xcel Energy, respectfully submits the below responses to requests for information from the North Dakota Public Service Commission made during the Informal Hearings of the above-referenced docket held on November 30, 2016.

***1. What is the service life of the CapX2020 projects?***

On average, transmission lines assets have an average useful life of 68 years, while Transmission Substation assets have an average useful life of 63 years. We do not assign lives to specific lines or projects.

***2. What were the contributing factors to a lower actual 2016 RECB net ratepayer credit compared to what was originally forecasted in the approved 2016 ND TCR filing?***

In general, it is difficult to estimate with precision the amount of RECB costs paid and revenues received by NSP in a given calendar year because of the many factors (and entities) involved in developing RECB investment and cost-sharing allocation factor projections. Following are the primary factors that can drive variability in RECB expenses and revenues:

## Expenses:

- Variability in other MISO transmission owner revenue requirement forecasts – These cost projections essentially represent an estimate of what NSP will be billed by MISO. In order to estimate what we will be billed, we utilize forecasted revenue requirements within our load zone or the MISO footprint (depending on the type of project) prepared by MISO, which can and do vary from actual results. Any variability in what other MISO members have budgeted in comparison to actuals impacts the amount of expenses we pay. Variability in revenue requirements can be driven by overall project investment, timing of expenditures, in-service dates, and changes in other formula rate inputs, such as the authorized rate of return.
- Load Sharing or cost allocation variability – Depending on the type of project, load sharing ratios (LSRs) are used to allocate costs within NSP load zones and/or the MISO footprint. So, even if all actual revenue requirements were to come in exactly as projected for all of the various MISO transmission owners, if actual LSRs differ from the forecasted levels, the resulting charges would still vary from the original estimates.

## Revenue:

- Changes in capital investment, expenditure patterns, and in-service dates – The Company sees variances from our capital budget as the business areas respond to changes in business conditions and other issues that arise throughout the construction process.
- Relationship of transmission capital to overall capital spending – The relationship of transmission capital to our total capital (including capital data across all functions) drives a series of cost allocation factors that are used to allocate various A&G and other related O&M costs. Even if total system capital expenditures were exactly as budgeted, a change in this ratio of transmission capital to total capital can result in a material change in revenues.

In our 2016 TCR application we had forecasted approximately \$148 million in RECB revenues and \$121 million in RECB costs for NSP. This resulted in an estimated net RECB credit of about \$27.0 million, or \$1.4 million for ND retail customers. Our most recent estimate of 2016 RECB activity (based on 10 months of actual data) shows revenues of \$145 million and expenses of \$126 million – a net of \$19.4 million or \$1.0 million for ND. The 2 percent underrun in projected revenues, coupled with a 4 percent increase in expenses will result in a roughly \$400,000 RECB-related variance related to the 2016 calendar year.

As we provided in response to a previous Information Request (#6, attached to this letter for reference), we expect that there will be significant swings in future year

RECB revenues and expenses as new projects (both NSP-owned and those owned by other entities) go into service, and the impacts of the lower MISO Return on Equity are realized. These changes will likely contribute to further variances that will affect the annual true-up.

***3. Will there be any impact of the recent MISO – SPP settlement on the Company?***

The MISO-SPP settlement resulted in MISO making a lump sum payment of \$16 million and establishing annual payments currently estimated to be about \$16 million to SPP. The payments are compensation for the capability to flow energy across SPP's system between MISO North and MISO South. The lump sum reflects the retroactive nature of the Settlement, back to early 2014. The ongoing charges to MISO will fluctuate based on MISO's use of SPP's system.

It is important for MISO to be able to flow energy between its North and South areas to enable economic dispatch over the overall MISO system. In essence, the payments made to SPP represent the cost of avoiding a hurdle rate and reducing congestion. They are eventually billed to MISO's customers as a component of energy – not transmission - costs. So, while the Settlement does not impact the TCR rate, we estimate that the North Dakota jurisdiction incurred charges of about \$50,000 for the lump sum payment in 2016, and will see an annual cost of approximately \$50,000 for the ongoing charge.

Hopefully these answers were responsive to the Commission's concerns. Please contact me if you have any additional questions or comments.

Sincerely,

A handwritten signature in blue ink that reads "David H. Sederquist". The signature is written in a cursive, flowing style.

DAVID H. SEDERQUIST  
SR. CONSULTANT, REGULATION/FINANCE

c: Sara Cardwell

- Non Public Document – Contains Trade Secret Data  
 Public Document – Trade Secret Data Excised  
 Public Document

Xcel Energy

Docket No.: PU-16-658

Response To: North Dakota Public Information Request No. 6  
Service Commission

Requestor: Sara Cardwell

Date Received: October 7, 2016

Question:

The MISO RECB Sch. 26/26a credit appears to be declining each year as shown on line 26 of Attachment 4. Please explain why this is.

Response:

The decline in the MISO RECB Sch. 26 and 26a revenue credit is explained by evaluating the relationship of the revenues and expenses associated with MISO RECB Sch. 26 and 26a. Below is the numerical detail behind the calculation of the MISO RECB Sch. 26 and 26a revenue credit followed by an explanation as to why the credit is declining over the 2015 through 2018 time period. It should be noted that the credit will increase back to previous years' levels as additional NSP owned projects are in-serviced.

<b>MISO RECB Credit Calculation</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<b>Actual</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>
<b>Revenue</b>					
Schedule 26	(70,319,917)	(91,147,024)	(87,549,930)	(86,337,908)	(85,107,798)
Schedule 26(a)	(54,304,598)	(57,055,072)	(64,219,329)	(74,367,420)	(97,038,291)
Total Revenue	(124,624,515)	(148,202,096)	(151,769,259)	(160,705,329)	(182,146,089)
<b>Expense</b>					
Schedule 26	67,975,792	84,649,861	81,995,387	81,420,106	80,267,445
Schedule 26(a)	29,271,512	41,048,559	60,169,357	69,769,512	80,616,548
Total Expense	97,247,304	125,698,420	142,164,744	151,189,618	160,883,993
Net Schedule 26/26a	(27,377,211)	(22,503,676)	(9,604,515)	(9,515,711)	(21,262,096)
ND JUR Allocation	5.4056%	5.2249%	5.2525%	5.2525%	5.2525%
ND Revenue Requirement (Decrease)	(1,479,904)	(1,175,805)	(504,480)	(499,816)	(1,116,798)

As shown in the table above, both revenues and expenses from MISO Schedule 26 and Schedule 26a are combined into a single net amount and allocated to the North Dakota Jurisdiction level. The net revenue credit shown in Schedule 26 and 26a has decreased due to an increase in expenses. The expense growth in Schedule 26 and 26a from 2016 to 2017 is the largest driver and is primarily due to the following:

1) Project In-Service Dates

The primary reason for the increase in expenses is due to project in-service dates for NSP versus non-NSP projects.

RECB revenues and expenses are driven by various projects owned by various MISO members. NSP owned projects will have both a revenue and an indirect impact to NSP. Between the 2016 and 2017 time period there was minimal change in NSP projects going into service. Therefore, a small increase in revenue occurred.

On the other hand, there were multiple non-NSP owned projects that went into service causing the large increase in expense. The most notable are:

- Palmyra Tap - Pawnee 345 kV Line, (\$22 million increase)
- Pana - Mt. Zion - Kansas - Sugar Creek 345 kV line, (\$13 million increase)
- Michigan Thumb Wind Zone, (\$11 million increase)

The projects going into service noted above will increase the total pool of expenses to be allocated to MISO members. As these lines are non-NSP owned lines, the impact to NSP is an increase in expense.

2) NSP Load Ratio Share

NSP's Load Ratio Share of the MISO footprint saw an increase of 1% year over year. MISO charges the MVP/26A projects to NSP based on the NSP load ratio share of the MISO footprint. This contributed to the increase in the total expense noted above.

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Preparer:	Nate Schraan	Jennifer Clements
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Telephone:	612-330-7661	303-294-2193
Date:	October 17, 2016	