

# Memorandum

To: Commissioners Christmann, Haugen-Hoffart, and Fedorchak

From: Adam Renfandt, Public Utilities Analyst

Date: December 10, 2024

Re: Northern States Power Company, Transmission Facility Cost Recovery (2025), Rates, Case No. PU-24-349

On October 3, 2024, Northern States Power Company (NSP) filed its 2025 update to its Transmission Cost Recovery (TCR) rate. The 2025 revenue requirement was \$4,842,509. The TCR rate proposed to be effective January 1, 2025, was \$.002272 per kWh (approximately .2272 cents per kWh), or an increase of approximately \$0.62 for the average residential customer using 750 kWh per month. The 2025 revenue requirement increased approximately \$1.7 million over the 2024 revenue requirement.

In reviewing, Staff questioned why NSP's 5-year Communications Network Program (CMP) was forecasted to increase by \$159M from the prior filing. NSP indicated this was in error as it had incorrectly added the return on \$80M of construction work in progress to the current revenue requirement and was forecasting to collect this requirement over a 5-year forecast window. These projects were not to be shared with the NSP North Dakota jurisdiction because they were NSP Wisconsin projects, which limit recovery of such projects until the time they are placed in-service. Wisconsin accrues an asset for Allowance for Funds Used During Construction (AFUDC), and then adds this amount to the project when placed in-service. Therefore, this revenue should not be collected from North Dakota ratepayers. Utilities have long shown a preference for construction work in progress over AFUDC as it is a readily available source of funds to grow rate base.

On November 19, 2024, NSP filed an update with the correction noted above, which resulted in a 2025 revenue requirement reduction of \$85,939. Therefore, the revised 2025 ND revenue requirement is \$4,756,570, or \$.002231 per kWh (.2231 cents per kWh), or an increase of \$0.59 per month for the typical residential customer using 750 kWh.

The 2025 revenue requirement includes 5 new projects and several previously approved projects. The 2025 TCR revenue requirement increased \$1.6M over the 2024 revenue requirement. Four of the new projects are part of MISO's Long Range Transmission Projects (LRTP) Tranche 1 projects representing approximately \$183,000 in 2025 revenue requirement with the other proposed project adding \$370,000 to the requirement and designed to add a second circuit to the 345 kV Brookings line. All the LRTP projects will be regionally cost shared with the MISO north footprint based on a load-ratio share. The drivers for the additional year-over-year revenue requirement increase were a

\$288,000 increase in the CMP, a \$260,000 increase in major line rebuilds with the remaining increases spread over several other projects and programs.

The following are brief descriptions of the new projects.

The Alexandria-Big Oaks project (LRTP2) involves adding a second circuit on approximately 109 miles of existing 345 kV transmission lines and associated infrastructure running from Alexandria, MN, to Big Oaks, MN, with NSP's estimated share at \$134 million and a late 2027 in-service date. The total cost of the project is approximately \$219 million.

The Wilmarth-North-Rochester-Tremval project (LRTP4) located in Minnesota and Wisconsin involves around 112 miles of 345 kV circuited transmission lines and associated facilities running from Willmarth, MN, to North Rochester, MN, to Tremval, WI, with NSP's estimated share at \$478 million and a 2030 in-service date. The total cost of the project is approximately \$533M.

The Tremval-Eau Claire-Jump River project (LRTP5) located in Wisconsin involves around 79 miles of 345 kV circuited transmission lines depending on final routing and running from Tremval to Eau Claire and then to Jump River, WI with NSP constructing the entire project for approximately \$420 million with a 2029 in-service date.

The Tremval-Rocky Run-Columbia project (LRTP6) in Wisconsin involves around 200 miles of 345 kV circuited transmission lines from Tremval to Rocky Run to Columbia, WI, with NSP's estimated share at \$150 million and a late 2030 in-service date. NSP will be constructing 39 miles of the project with ATC building 161 miles for a total estimated project cost of \$1.6B.

The fifth new project is not an LRTP project and involves adding a second 345 kV circuit to approximately 97 miles of transmission lines located mainly in Minnesota and extending from Brookings County, SD, to Lyon County, MN, to Helena, MN, and then to the Hampton, MN. The first phase of the project will have a 2024 in-service date while the second phase of the project will have a 2025 in-service date. NSP's share of the project is approximately \$99M with the total project cost at \$118M.

A summary of the new projects along with the estimated MISO billing impact for a residential customer using 750 kwh per month based on 2025 sales and excluding RECB related credits and the additional generation cost is shown in the table below.

	L RTP2	L RTP4	L RTP5	L RTP6	
	Brookings Second Circuit	Alexandria-Big Oaks	Wilmarth-North Rochester- Tremval	Tremval-Eau Claire-Jump River	Tremval-Rocky Run-Columbia
Total Miles	97	112	112	79	200
Rebuilt miles	0	1	64	42	160
Greenfield miles	0	2	32	37	40
Adding 2nd Circuit	97	109	16	0	0
Monthly MISO billing impact for 750 kwh per month (excluding RECB credits)	\$0.10	\$0.17	\$0.61	\$0.52	\$0.18
Total project cost borne by NSP	\$99M	\$134M	\$478M	\$420M	\$150M
Total Project cost to all funding	\$118M	\$219M	\$533M	\$420M	\$1.6B

Staff also questioned why NSP's 5-year spending for Major Line Rebuilds had increased from the prior filing by \$115M. NSP stated that it had prioritized LRTP Tranche 1 spending as well as the Sherco tie-line project and as a result deferred \$186M of spending to 2029, or around the time the LRTP projects will be in-service. NSP also indicated that they underwent a review of their asset renewal programs which identified a need to increase the budgets to make necessary repairs, refurbishments, and rebuilds.

Staff also notes that NSP will likely seek recovery of the Sherco tie-line in a future filing, which will require Commission action. The estimated cost of the Sherco tie-line has increased from \$817M as indicated in NSP's advance determination of prudence application that was before this Commission to \$1.1B today. The cost increase was largely the result of additional voltage support that was required including two additional synchronous condensers. NSP is not making a request for recovery in this filing. However, NSP is actively deferring major rebuilds, increasing spend on the program, and other asset renewal projects in its 5-year forecast to accommodate such overruns and the buildout of LRTP backbone transmission investments. Therefore, these deferred asset renewal program costs will be incurred at the same time as backbone investments and additional voltage support infrastructure.

Staff believes the incurred costs detailed in NSP's filing are reasonable and prudent, comply with NSP's tariff, and are eligible for recovery through the TCR. Based on this and the details contained within the filing, Staff recommends approval of NSP's 2025 TCR

rates as updated in its November 19, 2024, filing. The Commission will have an opportunity to address the other issues detailed in a likely future filing.

c: Alex Nisbet – Xcel Energy