FEDERAL ENERGY REGULATORY COMMISSION

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FERC Approves Incentive Rates to Accommodate Renewable Energy Projects

The Federal Energy Regulatory Commission (FERC) today granted Xcel Energy Services, Inc.'s request for incentive transmission rates as part of its plan for six transmission upgrades to meet state renewable energy generation standards and serve increased power demand in the Upper Midwest.

Xcel, on behalf of Northern States Power Company of Minnesota and Northern States Power Company of Wisconsin (together, NSP Companies), filed proposed modifications to the NSP companies' transmission rate formula under the Midwest Independent Transmission System Operator, Inc's (Midwest ISO) open access transmission and energy markets tariff. The proposed modifications permit two types of incentive rate treatments for the upgrades: recovery of return on 100 percent of prudently incurred construction work in progress (CWIP) and recovery of prudently incurred costs of transmission facilities that are canceled or abandoned for reasons beyond the NSP Companies' control.

The transmission upgrades will help serve renewable energy resources, particularly wind energy. Xcel is looking to build transmission to accommodate between 300 and 700 megawatts of windpower.

"There is a growing interest in, and the capability of developing, renewable resources in the Midwest," FERC Chairman Joseph T. Kelliher said. "We carefully evaluate requests for incentives, and Xcel has met the standard. Xcel's proposal not only will help improve reliability and strengthen the nation's grid system, but provide the necessary links to the expanding renewable market in the region."

The NSP companies are two of Xcel's operating utilities and serve customers in Minnesota, North Dakota, South Dakota, western Wisconsin and part of Michigan's Upper Peninsula. The companies are transmission-owning members of the Midwest ISO. Along with other utilities in the region subject to the Midwest ISO's oversight, the companies have been developing plans to upgrade the regional transmission infrastructure and plan to invest approximately $1 billion in six expansion projects to serve their five-state service territory.

The Energy Policy Act of 2005 directed FERC to develop incentive-based rate treatments for transmission of electric energy in interstate commerce. In Order No. 679, as modified by Order No. 679-A, the Commission set out the process under which utilities could seek transmission rate incentives. Under Order No. 679, the proposed incentive rate must also be shown to have a "nexus between the incentive sought and investment being made." Order No. 679-A clarified the nexus test is met when an applicant demonstrates that the total package of incentives requested is "tailored to address the demonstrable risks or challenges faced by the applicant." This nexus test is fact-specific and requires the Commission to review each application on a case-by-case basis.

FERC found that the NSP Companies have shown a nexus between the proposed CWIP incentive and their investments in the expansion projects as well as between the proposed abandoned plant recovery and their planned investment. Consistent with Order Nos. 679 and 679-A, authorizing the CWIP treatment and abandoned plant recovery for the projects would enhance cash flow, reduce interest expense, assist with financing and improve credit quality.

FERC conditionally accepted the companies' proposal to modify their transmission rate formula to use projected test year cost inputs, with a true-up mechanism to reflect actual costs.

"Our analysis indicates that the NSP Companies' proposal to switch to forward-looking estimated transmission costs with a true-up mechanism is just and reasonable," FERC said. To provide customers with sufficient time to review revenue requirement information, FERC directed the companies to provide estimated information to customers by Sept. 1 each year, instead of their proposed Oct. 1 date.

The proposed rate incentives and formula rate modifications are effective Jan. 1, 2008.

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