



# **Attachment B:**

# **Peak View Wind Project**

**Pursuant to Decision No. C15-1182**

June 1, 2017



## **Attachment B.1 – Peak View Wind Project Narrative**

### **Background**

The Peak View Wind Project is a 60 MW wind project located in Huerfano and Las Animas Counties in Colorado. The project was initially selected as the winning bid in a competitive bid solicitation from Proceeding No. 13A-0445E.

The Commission granted Black Hills' request for a Certificate of Public Convenience and Necessity ("CPCN") to purchase and own the Peak View Wind Project consistent with the terms of a settlement agreement by Decision No. C15-1182 in Proceeding No. 15A-0502E ("the Settlement Agreement"). This decision approved the Settlement Agreement that was joined by Black Hills, Staff of the Colorado Public Utilities Commission ("Staff"), the Colorado Office of Consumer Counsel ("OCC"), the Colorado Energy Office ("CEO"), Western Resource Advocates ("WRA"), Invenergy Wind Development Colorado LLC ("Invenergy"), the Board of Water Works of Pueblo, the Fountain Valley Authority, and the Rocky Mountain Environmental Labor Coalition (collectively, the Settling Parties).

### **Settlement Agreement**

While the Settlement Agreement contained a variety of key elements, some of them apply to this 2016 Annual RES Compliance Report. Below are a few key elements of the Settlement Agreement as they relate to the current 2016 Annual RES Compliance Report:

- The Company will not place the project into base rates before the end of 2026. Instead, the Company will collect the revenue requirement of the project through a combination of the Energy Cost Adjustment ("ECA") rider, the Transmission Cost Adjustment ("TCA") rider, and the Renewable Energy Standard Adjustment ("RESA").
- The avoided costs of the Peak View Wind Project, which represent the costs "avoided" due to the displacement of fuel and purchased power by the wind energy, were locked down on a \$/MWh basis through 2026. For 2016, this locked down avoided cost value is \$31.20 per MWh.
- The Company will only collect up to the avoided cost amount through a combination of the ECA and TCA. Any incremental costs above this avoided cost amount will be charged to the RESA account. Since the RESA is already a 2% charge on customers' monthly bills, this treatment ensures that customers are not paying more from a monthly bill perspective with the addition of the Peak View Wind Project as compared to not having the project.
- The Company will report the calculated revenue requirement and rate recovery treatment each year in the Annual RES Compliance Report beginning with this 2016 Annual RES Compliance Report.
- The performance assessment tool detailed in the Settlement Agreement will only take place for calendar years 2018 through 2026.

Variance from 2016 Estimate

Although the performance assessment tools detailed in the Settlement Agreement don't apply until calendar year 2018, below is a comparison of the 2016 revenue requirement to the Company's initial Peak View Revenue Requirement estimate in Proceeding No. 13A-0445E<sup>1</sup>.

The initial 2016 estimate forecasted a total 2016 Peak View Revenue Requirement of \$1,950,000. At the time of the forecast, the Company forecasted \$1,342,000 of this revenue requirement as being "avoided costs" which would be recovered through the ECA and/or TCA. The remainder of the revenue requirement, which was estimated at the time as \$608,000, was forecasted to be charged to the RESA. As shown below, the 2016 actual Revenue Requirement was approximately \$370,473 less than the original estimate. For comparison purposes, the final Peak View CPCN Settlement forecasted cost and cost recovery estimates are attached as Attachment C.

While final costs can be difficult to forecast for a project of this size, especially when calculated over a year prior to the project's Commercial Operation Date, the tables below show a favorable outcome from a Revenue Requirement and RESA standpoint for the 2016 RES Compliance year.

Estimated 2016 Revenue Requirement from Proceeding 13A-0445E

| <b>Time Period</b>                     | <b>Estimated Avoided Costs</b> | <b>Estimated RESA Costs</b> | <b>Estimated Total Costs</b> |
|--|--------------------------------|-----------------------------|------------------------------|
| November 1, 2016-<br>December 31, 2016 | \$1,342,000                    | \$608,000                   | \$1,950,000                  |

Actual Revenue Requirement

| <b>Time Period</b>                     | <b>Actual Avoided Costs</b> | <b>Actual RESA Costs</b> | <b>Actual Total Costs</b> |
|--|-----------------------------|--------------------------|---------------------------|
| November 8, 2016-<br>December 31, 2016 | \$1,041,394                 | \$538,133                | \$1,579,527               |

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<sup>1</sup> For 2017 and moving forward, the Company can compare the actual revenue requirements to the Company's estimates in the final Settlement Agreement exhibits from the Peak View CPCN Proceeding No. 15A-0502E. However, the project came online in November of 2016 which was earlier than modeled in the Settlement Agreement Exhibits. The only 2016 Peak View Wind Project estimate filed with the Commission was in Proceeding No. 13A-0445E.

**Attachment B.2 - Updated Revenue Requirement**

|         |   |           |                         |  |
|---------|---|-----------|-------------------------|--|
| Line No |   |           |                         |  |
| 1       | Build/Transfer  | \$        | 102,046,507             |  |
| 2       | Allowance for Fund Used During Construction               | \$        | 1,699,794               |  |
| 3       | Interconnection Facilities                                | \$        | 2,012,607               | *not included in 2016 RR as it is a 2017 TCA item  |
| 4       | Transaction and Easement Costs                            | \$        | 2,337,442               |  |
| 5       | Build/Transfer Price                                      | <u>\$</u> | <u>108,096,350</u>      | *this differs from Settlement Exhibit CMO-2 (attached to this filing as Attachment C) by \$3.4M or 3.2%            |
| 6       |   |           |                         |  |
| 7       | Annual O&M Inflation Factor                               |           | 2.00%                   |  |
| 8       | Useful Life (yrs) (Book Purposes)                         |           | 25                      |  |
| 9       | Gross Capacity (MW)                                       |           | 60                      |  |
| 10      | Estimated MWh Generated in a Year                         |           | 219,042                 |  |
| 11      | Return on Equity (Structure & Rate)                       | 49.83%    | 9.83%                   | 4.90%  |
| 12      | Interest Expense  | 50.17%    | 5.30%                   | 2.66%  |
| 13      |   |           |                         | RORB 7.56%   |
| 14      |   |           | Actual                  |  |
| 15      | Income Tax Rate   |           | 38.00%                  |  |
| 16      | Production Tax Credit per MWh                             | \$        | 23.00                   |  |
| 17      |   |           |                         |  |
| 18      |   |           | <b>Nov-Dec 2016</b>     |  |
| 19      | Net Book Value  |           | 106,083,743             | *TCA amounts removed   |
| 20      | Less Book Depreciation                                    |           | (510,349)               |  |
| 21      | Tax Depreciation  |           | (54,921,178)            |  |
| 22      | Deferred Tax Liability                                    |           | (397,177)               |  |
| 23      |   |           |                         |  |
| 24      | Beginning of Year Rate Base                               |           | <u>106,083,743</u>      |  |
| 26      |   |           |                         |  |
| 27      | Interest Expense (line 24 x line 12)                      |           | 351,926                 |  |
| 28      | Return on Equity (line 24 x line 11)                      |           | 648,300                 |  |
| 29      |   |           |                         |  |
| 30      | Land Lease Payments                                       |           | -                       | *no payments were processed until 2017   |
| 31      | O&M   |           | 931,956                 | *includes one-time mobilization payment regarding the O&M Services contract expensed in 2016 that is not recurring |
| 32      | Insurance   |           | -                       |  |
| 33      | Property Tax  |           | -                       | *no Property Tax charge until 2017   |
| 34      | Corporate Allocations                                     |           | -                       | *no Corporate Allocations charged until 2017   |
| 35      | PSCO Regulation Service                                   |           | -                       | *no Regulation Service charge until 2017   |
| 36      |   |           |                         |  |
| 37      | Depreciation Expense                                      |           | 510,349                 |  |
| 38      |   |           |                         |  |
| 39      | Fed/State Income Tax Expense                              |           | <u>397,177</u>          |  |
| 40      |   |           |                         |  |
| 41      | Production Tax Credit ((line 48 * line 16)/(1 - line 15)) |           | (1,238,623)             |  |
| 42      |   |           |                         |  |
| 43      | CO EZ Tax Credit  |           | (21,558)                |  |
| 44      |   |           |                         |  |
| 45      |   |           |                         |  |
| 46      | <b>Total Revenue Req (lines 27 - 44)</b>                  |           | <u><u>1,579,527</u></u> |  |
| 47      |   |           |                         |  |
| 48      | Annual Production   |           | 33,384                  |  |
| 49      |   |           |                         |  |
| 50      | Cost per MWh  | \$        | 47.31                   |  |
| 51      |   |           |                         |  |
| 52      |   |           |                         |  |

Attachment B.3 - Cost Recovery Mechanisms

| 2016 Actual Peak View Costs        |                               |                                    |            | 2016 Collection Mechanism |      |            |                                |
|------------------------------------|-------------------------------|------------------------------------|------------|---------------------------|------|------------|--------------------------------|
| Time Period                        | 2016 Peak View Avoided Costs* | 2016 Peak View Revenue Requirement | Difference | ECA                       | TCA  | RESA       | Total Collected from Customers |
| November 8, 2016-December 31, 2016 | \$ 1,041,394                  | \$ 1,579,527                       | \$ 538,133 | \$ 1,041,394              | \$ - | \$ 538,133 | \$ 1,579,527                   |

\*calculated at Commission-approved \$31.20 per MWh