

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair  
Commissioner  
Commissioner  
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Commissioner

In the Matter of the Review of the 2017-2018  
Annual Automatic Adjustment Report for All  
Electric Utilities

ISSUE DATE: November 13, 2019

DOCKET NO. E-999/AA-18-373

ORDER ACCEPTING 2017-2018  
ELECTRIC REPORTS AND SETTING  
ADDITIONAL REQUIREMENTS

**PROCEDURAL HISTORY**

**I. Introduction**

Under Minn. Stat. § 216B.16, subd. 7, and Minn. R. 7825.2390 through 7825.2920, rate-regulated gas and electric utilities may adjust their rates between general rate cases to reflect fluctuations in energy-related costs—that is, the prices they pay for gas or electricity purchased for delivery to ratepayers, or for fuel purchased to generate electricity for ratepayers. These adjustments are called automatic adjustments because a utility generally implements these rate changes in advance of Commission approval.

The adjustments automatically affect retail rates and some wholesale transactions. Utility tariffs contain a fuel clause adjustment (FCA) mechanism setting forth the formula for making monthly adjustments to the utility’s retail rates to reflect changes in the utility’s energy-related costs.<sup>1</sup> And the specific terms of any given wholesale transaction will determine whether and how fluctuations in energy-related costs alter the amount charged to a wholesale customer.

The rules require utilities to make detailed filings supporting each automatic adjustment. They also require utilities to make comprehensive annual filings reporting on all automatic adjustments made during the twelve-month period between July 1 of the previous year and June 30 of the reporting year (the fiscal year).<sup>2</sup>

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<sup>1</sup>*In the Matter of an Investigation into the Appropriateness of Continuing to Permit Electric Energy Cost Adjustments*, Docket No. E-999/CI-03-802, Order Revising Implementation Date, Establishing Procedural Requirements, and Varying Rule (December 12, 2018) at 7. Under the FCA Reform docket, the monthly FCA filing is scheduled to be discontinued beginning January 1, 2020.

<sup>2</sup> *Id.* Under the FCA Reform docket, the annual reporting period will be on a calendar year beginning January 1, 2020.

At its meeting on October 10, 2019, the Commission took up the annual reports filed by rate-regulated electric utilities for the fiscal year ending in 2018 (FYE18).

## **II. The Parties**

The electric utilities listed below (collectively the Companies) filed annual automatic adjustment (AAA) reports for 2018:

- Dakota Electric Association (Dakota Electric)
- Minnesota Power
- Northern States Power Company d/b/a/Xcel Energy (Xcel)
- Otter Tail Power Company (Otter Tail)

The Minnesota Department of Commerce, Division of Energy Resources (Department) examined the electric utilities' filings in detail and filed both company-specific and industrywide comments and recommendations in its Review of 2017 - 2018 (FYE18) Annual Adjustment Reports (Report), dated April 26, 2019. The Department analyzed the reasonableness of the rates charged by electric utilities during FYE18 and whether the utilities accurately adjusted their energy rates to reflect changes in energy-related costs consistent with applicable rules. The Department requested clarification of information and explanation from the utilities when necessary.

## **FINDINGS AND CONCLUSIONS**

### **I. Filing Requirements**

#### **A. Commission Rules**

The automatic adjustment rules direct public utilities to make an annual filing including at least the following categories of information:

##### **Minn. R. 7825.2800**

- The utility's procurement policies
- A summary of actions taken to minimize costs, including conservation actions

##### **Minn. R. 7825.2810**

- All automatic adjustments made during each month of the reporting year for each customer class
- Total revenues collected from customers for energy delivered
- All billing adjustments, supplier refunds, and any refunds credited to customers

##### **Minn. R. 7825.2820**

- An independent auditor's report evaluating the utility's accounting for automatic adjustments for the reporting year

## **Minn. R. 7825.2830**

- A five-year projection of fuel costs by energy source

### **B. Additional Topics**

Over the years, the Commission has ordered the Companies to report on a variety of topics as part of their AAA filings. In Section III of its April 26, 2019, Report, the Department reviewed the Companies' compliance with 18 reporting requirements designated as items A through R.

For example, the Commission authorized Minnesota Power, Otter Tail Power, and Xcel to join the Midcontinent Independent System Operator, Inc. (MISO) subject to conditions, including that the utilities report certain information about their costs and revenues arising from these markets.

Also, the Commission directed Minnesota Power, Otter Tail Power, and Xcel to report on certain auxiliary businesses as part of their AAA reports. For example, electric utilities can generate and sell electricity to non-retail customers by employing the same plant, staff, fuel and long-term power contracts that the utility acquired to serve its retail customers, thereby creating asset-based margins. And a utility may authorize MISO to use the utility's resources to maintain system reliability, creating ancillary services margins. The Commission monitors these activities to ensure that a fair share of the profits are allocated for the utility's operations, offsetting the portion that would be borne by ratepayers.

## **II. Filings Accepted**

The Commission will accept the AAA reports filed by the Companies, as revised and supplemented in response to the Department's comments, as being substantially complete under Minn. R. 7825.2390 to 7825.2920.

The Department scrutinized each utility's efforts to minimize energy and transmission costs for Minnesota retail customers. The Department also reviewed the effects on ratepayers of the MISO markets.

The Department's analysis of the FYE18 AAA reports was comprehensive and thorough. The Department's comments included recommendations as to each utility's AAA report, as well as recommendations on issues that required additional information or further explanation from the utilities; the utilities provided the information requested.

In its Report, the Department initially recommended the following:

- Acceptance of Xcel Energy, and Otter Tail's Auditor Reports for FYE18;
- Acceptance of the utilities' MISO Day 1 reporting;
- Acceptance of the utilities' MISO Day 2 reporting and allocations for FYE18;
- Acceptance of MP, Otter Tail, and Xcel Energy's Asset-based margins;
- Acceptance of the compliance filings required by Commission Order, as discussed in Section III, items A through R, of the Report;

In addition, the Department requested a response and clarification on the following topics:

- The Department requested Minnesota Power to provide the required Auditor's Report information pursuant to Ordering Paragraph 7 of the Commission's July 21, 2017 Order in Docket No. E-999/AA-15-611, regarding the review of the 2014-2015 AAA Report;
- The Department requested Minnesota Power, Otter Tail, and Xcel to provide the actual versus budgeted data for generation maintenance expense for 2018;
- The Department requested Xcel to provide information regarding its backup strategies for transformers and its policy for transformer maintenance; and
- The Department requested Minnesota Power to provide its policy for transformer maintenance.

In reply comments, the utilities provided the information requested by the Department. In response, the Department agreed that the utilities had supplied the requested information and recommended acceptance of the AAA Reports.

The Commission concurs with the Department that the filings demonstrate substantial compliance with the automatic adjustment statute, the automatic adjustment rules, and related Commission orders. The Commission accepts the Department's uncontested comments and recommendations for FYE18, as set forth in the ordering paragraphs below.

### **III. High Bridge Plant Misallocation**

#### **A. The Issue**

In its review of Xcel's gas AAA filing,<sup>3</sup> the Department identified an issue involving the allocation of natural gas costs between Xcel Energy's natural gas customers and Xcel's electric generation facilities, which requires an adjustment to Xcel's 2018 electric fuel costs.

Xcel explained that it transports natural gas on Northern Natural Gas (NNG) interstate pipeline for both Xcel's natural gas distribution business as well as to be used for fuel at some of its natural gas-fired electric generating units, including the High Bridge Plant. In investigating the cause of lost and unaccounted for gas from June 2013 through May 2018, Xcel discovered that it had provided NNG with incorrect information regarding the quantity of natural gas used at the High Bridge Plant from June 2013 through May 2018.<sup>4</sup> Xcel determined that its electric customers had *underpaid* for natural gas used for electric generation at the High Bridge Plant during that timeframe, whereas Xcel's natural gas customers *overpaid* in the same amount.

Upon the discovery of the error, Xcel stated that it took prompt action to correct the situation, refunding the amounts overcharged to its natural gas customers and surcharging its electric customers.

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<sup>3</sup> Docket No. G-999/AA-18-374. This issue is discussed more fully in that docket.

<sup>4</sup> Xcel explained in its gas AAA filing that SCADA meter data was being used to provide volume information to NNG, instead of the more accurate volumes from the MV90 meter, resulting in the misallocation of costs between Xcel's gas and electric customers.

## **B. Party Positions**

The Department raised concerns about Xcel's handling of the High Bridge issue, arguing that it should have been raised in a separate filing, and that Xcel appeared to be attempting to minimize the severity of its error. The Department agreed with Xcel that the Billing Error Rules 7820.3800 and 7820.4000 do not directly apply in this situation, but argued that the rule's goal of favoring ratepayers more than utilities in fashioning remedies should nonetheless apply. The Department recommended that based on the Company's lack of accountability in this matter, the Commission should disallow Xcel's entire surcharge amount of \$5,181,931, or, at a minimum, disallow the prior period (2013–2017) surcharge of \$3,669,040 to electric ratepayers. Finally, the Department recommended that the Commission require Xcel to identify and include errors such as the High Bridge adjustment error in future AAA filings and annual FCA true-up filings under the new FCA reform process.

Xcel argued that it takes seriously its obligations to ratepayers regarding billing accuracy, and that it applied the Department's recommended procedure to flag the High Bridge issue by raising it in the monthly FCA filing.

Xcel further reasoned that if the billing error rules are used in this proceeding then they should be used in their entirety. Xcel recommended that if the billing error rules are applied, the refund should be limited to the difference between the amount collected for service rendered and the amount the utility *should have* collected for service rendered, plus interest, for the period beginning three years before the date of discovery.<sup>5</sup>

## **C. Commission Action**

The Commission has considered the arguments of the Department and Xcel. The Commission has fully analyzed the Department's arguments and recommendation to disallow the Company's proposed surcharge in the AAA natural gas docket. The Commission finds no deliberate intent to fail to disclose or harm ratepayers. The Commission will approve Xcel's proposed surcharge for the misallocations from 2017–2018 regarding the High Bridge Plant. To earlier identify problem issues in the future, the Commission will require Xcel to identify and include error reports in future AAA filings and annual FCA true-up filing under the new FCA reform process.

## **IV. MISO Self-Commitment and Self-Scheduling**

### **A. Issue**

MISO markets identify the supply of electric generation available throughout the MISO regions, and the anticipated (and, in real time, the actual) demand for electricity in each area, selecting generators for dispatch in a manner designed to minimize overall costs to the system while meeting reliability requirements. MISO unit commitment is the process that determines which generators (and other resources) will operate to meet the upcoming need. MISO scheduling and dispatch sets the hourly output for each committed resource, using simultaneously co-optimized

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<sup>5</sup> At the hearing on this matter, Xcel agreed to forgo recovery of \$3,669,040 and recover only the amount related to the current period (FY18).

Security Constrained Unit Commitment and Security Constrained Economic Dispatch to clear and dispatch the energy and reserve markets.

A market participant—that is, anyone registered for participation in MISO markets—can specify the production cost of its generator, and MISO will refrain from dispatching the resource until market prices meet or exceed that level, again, subject to reliability requirements. But under some circumstances a participant will prefer to commit its generator to be available for MISO dispatch (“self-commit”), and unilaterally set the generator’s output level (“self-schedule”), accepting whatever market price results rather than waiting.

In the Commission’s FYE17 AAA proceeding, the Commission raised a number of questions regarding self-commitment and self-scheduling of large baseload generation facilities. In its February 7, 2019 order in this docket,<sup>6</sup> the Commission required Minnesota Power, Otter Tail, and Xcel to submit a compliance filing detailing each utilities’ self-commitment and self-scheduling activities and requiring additional information in future AAA reports. Specifically, the Commission ordered:

4. Within 90 days, Minnesota Power, Otter Tail Power, and Xcel shall each make a compliance filing containing an initial analysis of the consequences of self-commitment and self-scheduling of their generators, including the annual difference between production costs and corresponding prevailing market prices for both FYE17 and FYE18.

5. In future AAA Reports, Minnesota Power, Otter Tail Power, and Xcel shall each provide a complete analysis and discussion of the consequences of self-commitment and self-scheduling of their generators, including the annual difference between production costs and corresponding prevailing market prices.

## **B. Party Positions**

All three utilities calculated the difference as requested, including the annual difference between production costs and corresponding market rates. The utilities also commented on why self-commitment or self-scheduling of baseload units becomes necessary. Finally, the utilities reported that self-commitment of the baseload electric generation plants provides a net benefit to ratepayers.

Fresh Energy submitted comments and observations on the filings, noting that the utilities used varying methodologies to reach their findings. Fresh Energy argued that a consistent methodology, clarity about the calculations being performed, and inclusion of data upfront in future filings would better enable a more robust and timely process.

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<sup>6</sup> *In the Matter of the Review of the 2016-2017 Annual Automatic Adjustment Reports for All Electric Utilities*, Docket No. E-999/AA-17-492; *In the Matter of the Review of the 2017-2018 Annual Automatic Adjustment Reports for All Electric Utilities*, Docket No. E-999/AA-18-373, Order Accepting 2016-2017 Reports And Setting Additional Requirements, Ordering Paragraphs 4 and 5.

### **C. Commission Action**

The Commission finds that the utilities have substantially complied with Ordering Paragraphs 4 and 5 of its February 7 order, and will accept the filings. At the meeting, the parties agreed that the issues surrounding self-commitment and self-scheduling should be moved to a separate docket, instead of combining them with the AAA docket or the integrated resource plan dockets. The Commission agrees that a separate docket will provide a more focused forum for these issues. Thus, the Commission will open an investigation in a separate docket to require Minnesota Power, Otter Tail, and Xcel to report their future self-commitment and self-scheduling analyses using a consistent methodology by including fuel cost and variable Operations and Maintenance costs.

Finally, Minnesota Power, Otter Tail, and Xcel will be required to submit an annual compliance filing analyzing the potential options for seasonal dispatch generally, and potential options and strategies for utilizing “economic” commitments for specific coal-fired generating plants, including a specific explanation of barriers or limitations to each of these potential options, including but not limited to technical limits of the units and contract requirements (shared ownership, steam offtake contracts, minimum fuel supply requirements, etc.) as relevant, on March 1, 2020, and each year thereafter.

In the investigation docket, the Commission will require Minnesota Power, Otter Tail, and Xcel to provide stakeholders with the underlying data (work papers)<sup>7</sup> used to complete their analyses, in a live Excel spread sheet, including, at minimum, the data points listed below for each generating unit, with the understanding that this may include protected data.

### **ORDER**

1. The Commission accepts the Companies’ FYE18 AAA reports as filed and subsequently amended, as being substantially complete under Minn. R. 7825.2390 through 7825.2920.
2. The Commission accepts the compliance filings required by Commission Order, as discussed in Section III, items A through R of the Report.
3. The Commission accepts the utilities’ MISO Day 1, MISO Day 2, asset-based margin, and ancillary services market reporting.
4. The Commission authorizes Xcel to surcharge its electric customers for the misallocations from 2017-2018 regarding the High Bridge Plant.
5. Xcel shall identify and include error reports in future AAA filings and annual FCA true-up filings under the new FCA reform process.

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<sup>7</sup> As fully articulated in Ordering paragraph 9 below.

6. The Commission accepts Minnesota Power, Otter Tail, and Xcel's May 8, 2019 compliance filings required by Ordering Paragraph 4 of the Commission's February 7, 2019 Order in this docket and Docket No. E-999/AA-17-492.
7. Minnesota Power, Otter Tail, and Xcel shall submit a compliance filing within ten days of the date of this order showing any final adjustments that are a result of this order and all related tariff changes.
8. Minnesota Power, Otter Tail, and Xcel shall submit an annual compliance filing analyzing the potential options for seasonal dispatch generally, and potential options and strategies for utilizing "economic" commitments for specific coal-fired generating plants. The utilities shall include a specific explanation of barriers or limitations to each of these potential options, including but not limited to technical limits of the units and contract requirements (shared ownership, steam offtake contracts, minimum fuel supply requirements, (shared ownership, steam offtake contracts, minimum fuel supply requirements, etc.) as relevant, on March 1, 2020, and each year thereafter.
9. The Commission will open an investigation in a separate docket<sup>8</sup> and require Minnesota Power, Otter Tail, and Xcel to report their future self-commitment and self-scheduling analyses using a consistent methodology by including fuel cost and variable O&M costs, matching the offer curve submitted to MISO energy markets.
10. In the investigation docket, Minnesota Power, Otter Tail, and Xcel shall provide stakeholders with the underlying data (work papers) used to complete their analyses, in a live Excel spread sheet, including, at minimum, the data points listed below for each generating unit, with the understanding that this may include protected data.

Hourly data for all units:

- a) Date and hour
- b) Commit status (Null / Economic / Emergency / Must Run / Outage / Not Participating)
- c) Dispatch Status for Energy (Null / Economic / Self Schedule)
- d) Cleared MW
- e) Day ahead locational marginal price at unit node
- f) Real time MW adjustment
- g) Real time locational marginal price at unit node
- h) Day ahead dispatch minimum
- i) Real time dispatch minimum
- j) Fuel cost (\$/MWh)
- k) Variable operations and maintenance costs (\$/MWh)
- l) Day ahead locational marginal price representative of utility load zone
- m) Real time locational marginal price representative of utility load zone
- n) Whether Day Ahead Cleared = Day Ahead Dispatch Minimum (0 or 1)
- o) Actual production in MWh (for all 8,760 hours of the year)

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<sup>8</sup> *In the Matter of an Investigation into Self-Commitment and Self-Scheduling of Large Baseload Generation Facilities*, Docket No. E-999/CI-19-704.



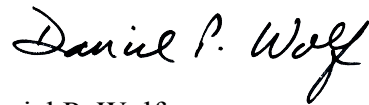
- p) Day ahead MISO payment
- q) Real time MISO payment
- r) Net MISO energy payment
- s) Production costs  $((J+K) * O)$
- t) Net cost or benefit (R-S)

Monthly or annual data for all units:

- u) Revenue from ancillary services (monthly)
- v) Fixed operations and maintenance costs (preferably monthly) or reasonable estimates in approximation thereof
- w) Capital revenue requirements (annual) or reasonable estimates in approximation thereof
- x) Average heat rate at economic minimum
- y) Average heat rate at economic maximum

11. This order shall become effective immediately.

BY ORDER OF THE COMMISSION



Daniel P. Wolf  
Executive Secretary



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