

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Katie J. Sieben	Chair
Dan Lipschultz	Commissioner
Valerie Means	Commissioner
Matthew Schuerger	Commissioner
John A. Tuma	Commissioner

In the Matter of an Investigation into the  
Appropriateness of Continuing to Permit  
Electric Energy Cost Adjustments

ISSUE DATE: November 5, 2019

DOCKET NO. E-999/CI-03-802

ORDER APPROVING COMPLIANCE  
FILINGS

**PROCEDURAL HISTORY**

On June 12, 2019, the Commission issued its Order Approving Additional Details of New Fuel Clause Adjustment Process (June 2019 Order), directing Minnesota Power, Northern States Power Company d/b/a Xcel Energy, and Otter Tail Power Company (Otter Tail Power) to make compliance filings.

By August 12, 2019, the Commission had received compliance filings from all three utilities.

On August 30, 2019, the Minnesota Department of Commerce (Department) filed comments recommending approval of the utilities' filings, and asking Otter Tail Power and Xcel Energy to file revised tariff language consistent with their filings.

On September 5, 2019, Minnesota Power filed reply comments accepting the Department's recommendations.

By September 9, 2019, Otter Tail Power and Xcel Energy had filed the requested tariff language, and Minnesota Power filed comments supporting the Department's recommendations.

On October 17, 2019, the Commission met to consider this matter.

**FINDINGS AND CONCLUSIONS**

**I. Summary of Commission Action**

The Commission approves the changes related to the base cost of energy as proposed by Minnesota Power, Otter Tail Power, and Xcel Energy, and directs each utility to reflect these changes in the documents supporting its next general rate case.

## II. Background

Generally a public utility may not change its rates without undergoing a general rate case in which the Commission reviews all the utility's costs and revenues.<sup>1</sup> When a utility files a general rate case, it must file documents supporting its proposed permanent rates, and the rates it proposes to charge while the rate case is pending (interim rates).<sup>2</sup> In particular, a rate-regulated electric utility must support any proposed change to its base cost of energy—that is, the share of the charge per kilowatt-hour (kWh) that reflects energy-related costs.<sup>3</sup>

One exception to this general policy permits a public utility to automatically adjust rates to reflect changes in the cost of fuel and other energy-related costs.<sup>4</sup> Commission rules implement this policy via a two-step process.<sup>5</sup> First, a general rate case establishes rates incorporating a base cost of energy, designed to permit the utility to recover its forecasted energy costs. Second, each month the utility calculates an electric energy adjustment under Minn. R. 7825.2600, reflecting the extent to which its actual energy-related costs differ from the amounts incorporated into base rates.

The utility sets forth its formula for this process in its tariffs via its fuel clause adjustment (FCA) mechanism. Each utility adopts a somewhat different formula. For example, the Commission varied its rules to authorize Xcel Energy to implement more extensive changes, such as calculating its adjustments based on forecasted energy costs.

The Commission initiated the current docket to explore updating the FCA, and has now ordered modifications to the FCA mechanism to, among other things, implement adjustments on an annual rather than monthly basis, starting in 2020.<sup>6</sup> The Commission directed Minnesota Power, Otter Tail Power, and Xcel Energy to explain how they intend to establish the base cost of energy in their next rate cases—including how these costs would affect the new FCA process, and how it would affect interim and final rates in a rate case.<sup>7</sup>

## III. Positions of the Parties

### A. Minnesota Power

Minnesota Power reports that, consistent with Commission rules, its base rates are designed to permit the utility to recover energy-related costs, based largely on the Base Cost of Energy filing

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<sup>1</sup> Minn. Stat. § 216B.16, subd. 1.

<sup>2</sup> *Id.*, subd. 3 (regarding interim rates).

<sup>3</sup> See Minn. R. 7825.2400, subp. 4 (defining *base electricity cost*).

<sup>4</sup> Minn. Stat. § 216B.16, subd. 7.

<sup>5</sup> Minn. R. 7825.2390 to 7825.2920.

<sup>6</sup> Order Approving New Annual Fuel Clause Adjustment Requirements and Setting Filing Requirements (December 19, 2017); Order Revising Implementation Date, Establishing Procedural Requirements, and Varying Rule (December 12, 2018); Order Approving Additional Details of New Fuel Clause Adjustment (June 12, 2019).

<sup>7</sup> June 12, 2019 Order, at 9–10.

that the utility submitted in conjunction with its last rate case filing. Minnesota Power also reports that its Rider for Fuel and Purchase Energy Adjustment (FPE) makes monthly adjustments reflecting changes in energy-related costs. Minnesota Power received a variance to Commission rules that enables it to print a single line-item on customer bills labeled “Resource Adjustment” that combines its FPE with its Conservation Program Adjustment (CPA) Rider.

Consistent with the Commission’s new policies, Minnesota Power proposes to eliminate energy-related costs from the base rate it proposes for its next rate case, and to forego making a Base Cost of Energy filing. And starting in 2020, the utility proposes to list its “FPE Charge” as a separate line item on customer bills.

### **B. Otter Tail Power**

Similar to Minnesota Power, Otter Tail Power reports it has made a filing regarding its energy-related costs when it filed its last rate case, and that the base rates resulting from that case incorporated energy-related costs largely based on that filing. Otter Tail Power also reports that it makes monthly adjustments when the energy-related share of revenues it collects via base rates over- or under-collects the expected amounts.

Otter Tail Power anticipates continuing this process until it implements interim rates during its next rate case. At that point, the utility proposes to establish a base rate that excludes energy-related costs, and to recover its forecasted energy-related costs via the adjustment mechanism. Otter Tail Power stated that it might need to make one more energy-cost filing in conjunction with its next rate case if the case were filed too late to permit interim rates to take effect on January 1, 2020.

### **C. Xcel**

Xcel notes that the Commission granted Xcel authority to vary from Commission rules, permitting Xcel to recover all of its energy-related costs through its Fuel Clause Adjustment charge rather than via base rates. While Xcel continues to calculate a base cost of energy, Xcel no longer uses that number in calculating a customer’s bill.

In 2020 Xcel proposes to do the following:

- Calculate its base cost of energy using its latest “Annual Fuel Forecast.”
- Revise its FCA tariff language to clarify that Xcel Energy no longer recovers energy-related costs via its base costs of energy.
- Establishing a “Fuel Cost Charge” section of its tariffs setting forth the Commission-approved monthly fuel cost charges and adjustments.

### **D. Department of Commerce**

The Department acknowledges that the process of setting a utility’s base rates may require consideration of energy-related costs and revenues for purposes of calculating allocations. But otherwise, the Department supports referring issues involving energy-related costs and revenues

to the annual fuel forecast dockets rather than the general rate case. To further this end, the Department asks the Commission to direct each utility, in the initial filings for its next general rate case, to demonstrate that its proposed base rates do not include any energy-related costs.

Otherwise, the Department raised no objection to the utilities' proposals, but asked that Otter Tail Power and Xcel Energy file revised tariff language removing any obsolete references to the base costs of energy. These utilities did so.

#### **IV. Commission Action**

Based on the Department's analysis and the Commission's own review of the utilities filings, the Commission accepts the utilities filings as fulfilling the requirements of the June 2019 Order. The utilities have demonstrated that they are implementing the Commission's rate design changes for the recovery of energy-related costs.

Each utility will have the opportunity to take the final step in implementing these changes when it files its next general rate case. Accordingly, the Commission will adopt the Department's recommendation and direct each utility as part of its next rate case filings to demonstrate that its proposed base rates do not contain any energy-related costs.

The Commission will so order.

### **ORDER**

1. The Commission approves the changes related to the base cost of energy as proposed by Minnesota Power, Northern States Power Company d/b/a Xcel Energy, and Otter Tail Power Company.
2. In the initial filings for their next rate cases, each utility shall demonstrate that its proposed base rates exclude Fuel Clause Adjustment-related costs.
3. This order shall become effective immediately.

BY ORDER OF THE COMMISSION

Daniel P. Wolf  
Executive Secretary



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