Xcel Energy®

414 Nicollet Mall
Minneapolis, MN 55401

February 11, 2015

—Via Electronic Filing—

Mr. Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101

RE: ADDITIONAL REPLY COMMENTS
2011-2012 ANNUAL AUTOMATIC ADJUSTMENT OF CHARGES REPORT
DOCKET NO. E999/AA-12-757

Dear Mr. Wolf:

Northern States Power Company, doing business as Xcel Energy, submits these Additional Reply Comments to the Response Comments filed on December 31, 2014 by the Minnesota Department of Commerce - Division of Energy Resources and on December 30, 2014 by the Office of the Attorney General – Residential Utilities and Antitrust Division regarding our Annual Automatic Adjustment of Charges (AAA) Report for 2011-2012 (FYE12).

We have electronically filed this document with the Minnesota Public Utilities Commission, and copies have been served on the parties on the attached service list. Please contact me at paul.lehman@xcelenergy.com or (612) 330-7529 if you have any questions regarding this filing.

Sincerely,

/s/

PAUL J LEHMAN
MANAGER, REGULATORY COMPLIANCE AND FILINGS

Enclosures
c: Service List

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	Chair
Nancy Lange	Commissioner
Dan Lipschultz	Commissioner
John Tuma	Commissioner
Betsy Wergin	Commissioner

IN THE MATTER OF NORTHERN STATES POWER COMPANY, REVIEW OF 2011-2012 ANNUAL AUTOMATIC ADJUSTMENT REPORT FOR ITS ELECTRIC OPERATION

DOCKET NO. E999/AA-12-757

ADDITIONAL REPLY COMMENTS

OVERVIEW

Northern States Power Company, doing business as Xcel Energy, submits this Additional Reply to the Response Comments filed on December 31, 2014 by the Minnesota Department of Commerce - Division of Energy Resources and on December 30, 2014 by the Office of the Attorney General – Residential Utilities and Antitrust Division (OAG) regarding our Annual Automatic Adjustment of Charges (AAA) Report for 2011-2012 (FYE12).

We appreciate the Department's review of our August 26, 2013 Reply Comments and its recommendation that the Commission approve our various reports and compliance items as filed. We re-confirm our commitment to:

- Provide explanations of the wind curtailment payments made under the "Reason Code 4 – Other" category in monthly and annual reporting; and
- Flag in the monthly report any months where curtailment payments are under review.

Many of the topics raised during the additional comment period set by the Commission were addressed through our initial Reply Comments of August 2013. In response to the Department's and the OAG's December 2014 Comments, we discuss below:

- O&M costs
- Sharing lessons learned
- FCA Mechanism and Incentive Proposals

We respectfully request that the Commission accept our FYE12 AAA Report as supplemented by this and previous Reply Comments.

REPLY

A. O&M Costs

In the Department's review of the Fuel Clause Adjustment (FCA), one way it has been monitoring power plant operations has been through comparison of actual maintenance expense to amounts authorized to be collected through base rates. As the Department notes, the Company has been spending more on plant O&M than we are charging to customers. We are not opposed to the Department's examination of maintenance expenses. Nonetheless, we do caution that while adequate O&M is very important for keeping plants in good working order, there will not be a certain O&M level that is guaranteed to prevent all future forced outages. We plan and budget O&M levels for what is needed for our fleet of generation.

B. Sharing Lessons Learned

We appreciated the Department's recommendation accepting our compliance filing regarding sharing lessons learned about forced outages. Since the topic continues to be an issue in review of the FYE13 AAA we would like to highlight some of the key items we've previously discussed in this docket.

Our August 2013 Reply Comments described our improved plant processes—the Generation Operating Model—initiated and implemented throughout Xcel Energy starting in late 2011. This initiative began with visits to generation plants across the country to benchmark best practices and to learn from other successful plants' operations. Establishment of principles to manage, operate and maintain our generating assets along with alignment of resources and standardization of key operating elements help to further identify best practices, capture efficiencies, reduce costs, and promote our goal of operating excellence. Additionally, we identified steps taken to improve human performance and information sharing across the entire generation fleet for all four Xcel Energy operating companies.

These efforts bring significant value for customers in the form of improved plant performance. An example of this is our Black Dog generating plant where as a result of initiating a performance improvement plan, there were large gains in the plant achieving for 2014 the best safety, reliability and environmental performance in at least the last eight years.

In the FYE13 AAA docket (Docket No. E999/AA-13-599), we further described how information has been shared with other local Minnesota utilities and industry-wide. From our perspective, information sharing is actively occurring and will continue to happen on its own; there is no need for a regulatory prescription to learn from each other. We have addressed this further in our Reply and Additional Reply Comments in the FYE13 AAA docket.

D. FCA Mechanism and Reform Proposals

We understand and accept the responsibility for supporting the prudency of all costs flowing through the FCA mechanism. As we stated in our August 2013 Reply, given the significant levels of dollars for fuel, and purchased power costs flowing through the fuel clause mechanism of each utility, it is appropriate for regular, periodic review of whether utilities are taking suitable actions to minimize these costs automatically passed on to customers.

We work hard to provide the Department with complete and extensive supporting detail from which to conduct their review. Over time, additional reporting requirements pertaining to any aspect of cost items recovered through the FCA have been layered on to the point where the annual review of multiple utility filings has become more labor intensive and time consuming than ever before. Additionally, the Department has raised concerns that the current ratemaking structure provides little to no incentive to minimize FCA costs, particularly replacement power costs.

As a solution to their review problem and to introduce incentive, the Department has been interested in finding ways to make things more formulaic, potentially leading to a more simplified review. Stakeholders were convened to discuss the fuel clause and possible improvements. Perhaps not surprisingly, stakeholders did not find common ground for FCA mechanism reform.

In our August 2013 Reply, we described our perspective on the intent of the fuel clause and our view of how an incentive works. We will not repeat those comments here but will provide an update of the analysis presented. Regardless, we do not share the Department's view that the fuel clause does not work. We are willing to continue to participate in discussions that include consideration of incentives, but feel there is no inherent flaw in the fuel clause as it now exists.

<u>FCA Reform Proposals</u>

In addition to the Department's prior suggestion to set the FCA based on historic data, the Department offered three other alternatives for reforming the fuel clause and incenting utilities. Each of these ideas, however, involves things over which utilities have no control.

By design, the FCA permits utilities to recover costs largely out of our control, outside of a rate case. Customers are billed their share of volumes and cost of fuel, dollar for dollar; they do not pay any more for these items than the utility incurs to produce and/or procure the energy on their behalf. Fuel clause mechanisms provide significant benefit to utilities, regulators and ratepayers by creating a method for recovery of certain volatile costs. The utility is kept whole with that portion of its costs; ratepayers pay their share of costs according to how much electricity they use; and regulators are able to focus review on these limited types of costs on a regular basis, rather than during a rate case where all costs are reviewed.

We continue to have concerns and reservation about supporting alternate FCA methods that will clearly reduce and limit any opportunity we might have to recover FCA type costs with no ability to improve our outcomes through our own actions.

In our August 2013 Reply Comments, we thoroughly described our concerns about the Department's suggestion to set forward-looking fuel clause recovery based on an average of past actual experience. The proposal to use an historic rolling average approach produces volatile and random results. Included in our Reply was a back-cast analysis applying the suggested 3-year average to recent historic data as well as a summary of the primary drivers influencing our FCA during these years. With the passage of time, we have updated the table with 2013 results. This information was provided to the OAG in response to an information request and is included here as Attachment A.[1] Updated versions of Table 3 and Table 4 from our Reply are included below. As can be seen in the updated results, we would have under-recovered approximately $100 million in 2013 using the Department's historic rolling average approach.

[1] For ease of filing, Attachment A to this Reply includes only the text portions of our response to Information Request No. OAG-2.

Table 3-Updated: Impact of Department's Proposal

	Change to FCA Recovery ($M)	Actual ROE Weather Normalized (%)	Realized W/N ROE Under DOC FCA Incentive Proposal (%)	Difference (%)
2008	**-$94.5**	10.19	7.78	-2.41
2009	**+$54.4**	10.18	11.46[2]	+1.26
2010	**+$32.8**	8.78	9.48	+0.70
2011	**-$26.5**	9.08	8.56	-0.52
2012	**-$63.1**	8.20	7.05	-1.15
2013	**-$112.1**	8.22	6.32	-1.90

The primary drivers influencing our FCA during this same period can be grouped into the following three general cost categories: (1) commodity fuel and transportation cost, (2) resource supply mix, and (3) state policy. Updated Table 4 provides the main factors impacting our FCA during 2008-2014.

Table 4-Updated: Main Factors Impacting FCA from 2008-2014

2008	2009	2010	2011	2012	2013	2014
• Additional biomass purchases (Fibrominn & Laurentian)	• Additional biomass purchases (Fibrominn, Laurentian and Rahr Malting)	• Additional biomass purchases (Fibrominn, Laurentian and Rahr Malting)				
• Additional wind purchases (Fenton, MinnDakota, CBED)	• Additional wind purchases (Fenton, MinnDakota, CBED)	• Additional wind purchases (Fenton, MinnDakota, CBED)	• Additional wind purchases - CBED (generally higher prices)	• Additional wind purchases - CBED & Prairie Rose (generally higher prices)	• Additional wind purchases - CBED & Prairie Rose (generally higher prices)	• Additional wind purchases - CBED & Prairie Rose (generally higher prices)
	• Grand Meadow wind online	• Grand Meadow and Nobles wind online	• Grand Meadow and Nobles wind online	• Grand Meadow and Nobles wind online	• Grand Meadow and Nobles wind online	

[2] In Table 3 as originally filed, we reported this ROE to be 11.44. Upon subsequent analysis, we discovered that this ROE should be 11.46. The correction is reflected her and in the response to Information Request No. OAG-2.

2008	2009	2010	2011	2012	2013	2014
• Higher coal prices due to increased transport cost (diesel surcharge)	• Higher coal prices due to increased transport cost (diesel surcharge)	• Higher coal and rail prices	• Higher coal and rail prices	• Higher coal and rail prices	• Higher wind curtailment costs	• Higher wind curtailment costs
• Higher nuclear fuel prices	• Higher nuclear fuel prices	• Higher nuclear fuel prices	• Higher nuclear fuel prices	• Higher nuclear fuel prices	• Higher coal and rail prices	• Increased rail transport cost and diesel surcharge at King and Black Dog
• Higher natural gas prices					• Higher nuclear fuel prices	
• High Bridge and Riverside retired from coal use in 2007 and 2008.	• High Bridge and Riverside retired from coal use in 2007 and 2008.	• High Bridge and Riverside retired from coal use in 2007 and 2008.				• Higher natural gas prices in Q1 2014 due to extreme cold
• Lower cost MISO market purchases as operations become smoother	• Lower natural gas and MISO market prices	• Lower natural gas and MISO market prices	• Lower natural gas and MISO market prices	• Lower natural gas and MISO market prices	• Higher MISO costs (mainly congestion)	• Higher MISO costs (mainly congestion)
		• More planned coal maintenance	• More planned coal maintenance		• More planned coal maintenanc e	
		• One nuclear refueling outage (2 nuclear refueling other yrs in period)	• More planned nuclear maintenance	• More planned nuclear maintenance	• More planned nuclear maintenanc e	• One nuclear refueling outage (vs. 2 in other yrs) and less planned maintenance
			• Sherco 3 forced outage near year-end	• Sherco 3 forced outage	• Sherco 3 forced outage	• Sherco 3 in service
						• Mild summer weather; lower load

In summary, other than the forced outage impact of Sherco 3 experienced in 2012 and 2013, the major events influencing the FCA were related to fuel prices, supply mix and state policy for Xcel Energy during this past seven year period.

With respect to the other alternatives identified by the Department, we see similar issues and would be happy to participate in further discussion if that is the direction the Commission provides. A repeated concern and criticism the Department has in AAA proceedings is around plant outages. We are working hard to keep our plants operating at top performance and believe the other utilities are as well. For the record, we note that we also proposed during stakeholder meetings and communications an incentive mechanism which revolved around something utilities have more control over—plant operations. We thought our proposal was a good start and may have been of interest to at least one other utility, but it did not appeal to other stakeholders.

CONCLUSION

Xcel Energy appreciates this opportunity to submit its Additional Reply to the Department's Review. We respectfully request that the Commission accept our FYE12 AAA Report as supplemented through our Reply Comments in this proceeding. Regarding the topic of fuel clause reform, we are willing to continue to participate in discussions that include consideration of incentives, but feel there is no inherent flaw in the fuel clause as it now exists. However, we would agree it could be beneficial to look for ways to streamline or simplify reporting to aid review.

Dated: February 11, 2015

Northern States Power Company

☐ **Non Public Document – Contains Trade Secret Data**
☐ **Public Document – Trade Secret Data Excised**
☒ **Public Document**

Xcel Energy
Docket No.: E999/AA-12-757
Response To: Office of Attorney General Information Request No. 2
Requestor: Ryan Barlow
Date Received: January 12, 2015

Question:
Reference: FCA Incentive Proposal

Please provide any and all data used to replicate Xcel's analysis within Table 3. Include a description of the analysis so that the analysis can be replicated from the data provided.

In addition, include similar data for the most recent 5 year period available such that the analysis can be updated.

Response:
Table 3 below has been updated with data for 2013. Complete data for 2014 is not yet available.

Table 3-Updated: Impact of Department's Proposal

	Change to FCA Recovery ($M)	Actual ROE Weather Normalized (%)	Realized W/N ROE Under DOC FCA Incentive Proposal (%)	Difference (%)
2008	**-$94.5**	10.19	7.78	-2.41
2009	**+$54.4**	10.18	11.46[1]	+1.26
2010	**+$32.8**	8.78	9.48	+0.70
2011	**-$26.5**	9.08	8.56	-0.52
2012	**-$63.1**	8.20	7.05	-1.15
2013	**-$112.1**	8.22	6.32	-1.90

Change to FCA Recovery: Please see Attachment A for data supporting these calculations. Attachment A shows the DOC's FCA Incentive Mechanism utilizing a

[1] In Table 3 as originally filed, we reported this ROE to be 11.44. Upon subsequent analysis, we discovered that this ROE should be 11.46. We have made the correction in this response.

three-year average to calculate the fuel cost factors as compared to the actual fuel cost factors. The resulting difference is calculated in Attachment A and included in Table 3 above.

Actual ROE, Weather Normalized: See Attachment B "Actual" tabs by year for data supporting the actual ROE. The actual ROEs included in Attachment B are as filed with the PUC in the following Electric Jurisdictional Annual Reports:

E,G999/PR-09-4, filed May 1, 2009
E,G999/PR-10-4, Update filed May 28, 2010
E,G999/PR-11-4, filed May 2, 2011
E,G999/PR-12-4, Revision filed May 23, 2012
E,G999/PR-13-4, filed May 1, 2013
E,G999/PR-14-4, filed May 1, 2014

Realized Weather Normalized ROE Under DOC FCA Incentive Proposal: See Attachment B "DOC Proposal" tabs by year for data supporting the resulting ROE under the DOC FCA Incentive Proposal. To calculate the change in ROE, we used the original ROE calculations and adjusted the revenue by the FCA amounts as listed in Attachment A.

Difference: This is calculated by subtracting the Realized W/N ROE Under DOC FCA Incentive Proposal from the Actual ROE, Weather Normalized.

We have also updated Table 4 from our Reply Comments submitted on August 23, 2013 in this docket to provide the main factors impacting the FCA in 2013 and 2014.

Table 4-Updated: Main Factors Impacting FCA from 2008-2014

2008	2009	2010	2011	2012	2013	2014
• Additional biomass purchases (Fibrominn & Laurentian)	• Additional biomass purchases (Fibrominn, Laurentian and Rahr Malting)	• Additional biomass purchases (Fibrominn, Laurentian and Rahr Malting)				
• Additional wind purchases (Fenton, MinnDakota, CBED)	• Additional wind purchases (Fenton, MinnDakota, CBED)	• Additional wind purchases (Fenton, MinnDakota, CBED)	• Additional wind purchases - CBED (generally higher prices)	• Additional wind purchases - CBED & Prairie Rose (generally higher prices)	• Additional wind purchases - CBED & Prairie Rose (generally higher prices)	• Additional wind purchases - CBED & Prairie Rose (generally higher prices)
	• Grand Meadow wind online	• Grand Meadow and Nobles wind online	• Grand Meadow and Nobles wind online	• Grand Meadow and Nobles wind online	• Grand Meadow and Nobles wind online	

2008	2009	2010	2011	2012	2013	2014
• Higher coal prices due to increased transport cost (diesel surcharge)	• Higher coal prices due to increased transport cost (diesel surcharge)	• Higher coal and rail prices	• Higher coal and rail prices	• Higher coal and rail prices	• Higher wind curtailment costs	• Higher wind curtailment costs
• Higher nuclear fuel prices	• Higher nuclear fuel prices	• Higher nuclear fuel prices	• Higher nuclear fuel prices	• Higher nuclear fuel prices	• Higher coal and rail prices	• Increased rail transport cost and diesel surcharge at King and Black Dog
• Higher natural gas prices					• Higher nuclear fuel prices	
• High Bridge and Riverside retired from coal use in 2007 and 2008.	• High Bridge and Riverside retired from coal use in 2007 and 2008.	• High Bridge and Riverside retired from coal use in 2007 and 2008.				• Higher natural gas prices in Q1 2014 due to extreme cold
• Lower cost MISO market purchases as operations become smoother	• Lower natural gas and MISO market prices	• Lower natural gas and MISO market prices	• Lower natural gas and MISO market prices	• Lower natural gas and MISO market prices	• Higher MISO costs (mainly congestion)	• Higher MISO costs (mainly congestion)
		• More planned coal maintenance	• More planned coal maintenance		• More planned coal maintenanc e	
		• One nuclear refueling outage (2 nuclear refueling other yrs in period)	• More planned nuclear maintenance	• More planned nuclear maintenance	• More planned nuclear maintenanc e	• One nuclear refueling outage (vs. 2 in other yrs) and less planned maintenance
			• Sherco 3 forced outage near year-end	• Sherco 3 forced outage	• Sherco 3 forced outage	• Sherco 3 in service
						• Mild summer weather; lower load

Preparer:	David Horneck	John Chow	Jeff Hafner
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Telephone:	303-571-2816	612-330-7588	612-330-7622
Date:	January 23, 2015		

Certificate of Service

I, Tiffany Hughes, hereby certify that I have this day served copies of the foregoing document on the attached list of persons.

xx by depositing a true and correct copy thereof, properly enveloped with postage paid in the United States mail at Minneapolis, Minnesota

xx electronic filing

Docket No. E999/AA-12-757

Dated this 11th day of February 2015

/s/

____

Tiffany Hughes

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