

Staff Briefing Papers

Meeting Date March 1, 2018

Agenda Item *1

Company All Commission-Regulated Electric Utilities

Docket No. **E-999/AA-16-523**

In the Matter of the Review of the 2015-2016 Annual Automatic Adjustment Reports for All Electric Utilities

- Issues
1. Should the Commission accept the electric utilities' 2015-2016 annual automatic adjustment reports?
 2. Should the Commission approve the Department's recommendation concerning the discontinuance of the Nuclear Sinking Fund reporting requirement?
 3. How should the Commission address the Department's FCA reform recommendations?
 4. Should the Commission approve the inclusion of new Ancillary Services Market ramping charges for recovery through the FCAs?
 5. Should the Commission accept Minnesota Power's explanation regarding the two average cost of fuel differences identified by its auditor as reasonable?
 6. Should the Commission accept Xcel Energy's statement that it has alleviated the potential for reoccurrence of identified data discrepancy issues?

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 **Relevant Documents**

Date

Dakota Electric Association – Initial Filing (Non-Public)	August 24, 2016
Minnesota Power – Initial Filing (Non-Public)	August 31, 2016
Otter Tail Power Company – Initial Filing (Non-Public)	September 1, 2016
Xcel Energy – Initial Filing (Non-Public)	September 1, 2016
Xcel Energy – Supplement to Part H (Non-Public)	September 30, 2016
Minnesota Department of Commerce, Division of Energy Resources – Report (Non-Public)	September 13, 2017
Minnesota Power – Reply Comments (Non-Public)	October 5, 2017
Otter Tail Power Company – Reply Comments	October 9, 2017
Xcel Energy – Reply Comments	October 9, 2017
Minnesota Department of Commerce, Division of Energy Resources – Response Comments	February 7, 2018

Statement of the Issues

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Background

The Minnesota Public Utilities Commission (Commission) conducts an annual review of the electric utilities' automatic adjustment of charges for the previous twelve-month period (i.e., the fiscal year from July 1 through June 30).¹ This review occurs after the utilities file annual automatic adjustment (AAA) of charges reports on September 1 of each year, and, after the Minnesota Department of Commerce, Division of Energy Resources (Department) submits its analysis of the AAA reports.

The utilities' AAA reports are prepared in accordance with the Commission's automatic adjustment of charges rules, i.e., Minnesota (Minn.) Rules (R.), parts 7825.2390 through 7825.2920. The AAA reports also contain compliance information required by Commission order in previous AAA dockets, and other Commission proceedings (e.g., the orders from the proceedings authorizing transfer of control of the utility transmission assets to the Midcontinent Independent System Operator (MISO),² and the orders authorizing the pass through of MISO ancillary service market (ASM) costs and revenue through the fuel clause adjustment mechanisms.)³

¹ Minn. R., part 7825.2850. **Annual Commission Meeting.** The Commission shall annually conduct a separate meeting to review the automatic adjustment of charges reported herein.

² Docket Nos. E-002/M-00-257, E-001/PA-01-1505, E-015/PA-01-539, and E-017/PA-01-1391.

³ Docket No. E-001,015,002,017/M-08-528.

Annual Automatic Adjustment Reports

On or about September 1, 2016, all of the Commission-regulated electric utilities except Northwestern Wisconsin Electric Company⁴ submitted AAA reports covering the twelve-month period from July 1, 2015 through June 30, 2016 (i.e., fiscal-year 2016), in this docket.⁵

The following electric utilities submitted AAA reports:

- Dakota Electric Association (DEA);
- Minnesota Power (MP);
- Northern States Power Company d/b/a Xcel Energy, Incorporated – Electric Utility (Xcel Energy); and
- Otter Tail Power Company (Otter Tail).

Parties' Comments

On September 13, 2017, the Department submitted its Review of fiscal-year 2016 (FYE16) Annual Automatic Adjustment Reports for Electric Utilities (Report). The *Report* covers all of the electric utilities' AAA reports, AAA-related compliance filings, and other reports requested by the Commission in various orders.

On pages 4-5 of the *Report*, the Department summarizes the electric utilities' fuel cost projection for the next five years on a \$ per MWh basis and as a year-to-year percentage change in cost. The electric utilities' reported a wide range of fuel costs and annual percentage changes because each of the utilities' generation fleet, mix of purchase power agreements (PPAs), and other factors differ from utility-to-utility. (The utilities designated this information as non-public data.)

On page 6 of the *Report*, the Department provided a comparison of actual 2016 annual energy costs on a \$ per MWh basis to the forecasts of 2016 costs on a \$ per MWh basis as provided by the electric utilities in their FYE11 – FYE15 AAA reports. The Department observed that:

. . . while the utilities consistently over-forecasted energy costs, the forecasts generally became closer to 2016's actual annual costs, the closer to 2016 the forecasts were made.

The table below provides a summary for each utility of the total actual cost of fuel purchased during the year (including purchased power costs) to the fuel costs recovered through automatic adjustments.⁶

⁴ On December 18, 2001, the Commission granted Northwestern Wisconsin Electric Company (NWECC) a variance from the annual reporting requirements in the automatic adjustment rules. This variance has no expiration date. (G,E-999/AA-00-1027).

⁵ Copies of the electric utilities' fiscal-year 2016 annual automatic adjustment reports are available through the "edockets" system at (<https://www.edockets.state.mn.us/EFiling/search.jsp>)

⁶ DEA's total includes capacity in addition to fuel.

Utility	Fuel Cost Recovered (\$)	Fuel Cost (\$)	Over-Recovery/(Under-Recovery)	
			(\$)	(%)
DEA ⁷	146,436,020	144,364,540	2,071,480	1.43
MP ⁸	140,861,132	143,457,231	(2,596,098)	(1.81)
Otter Tail ⁹	58,956,176	58,237,792	718,385	1.23
Xcel Energy ¹⁰	759,012,876	743,614,976	15,397,900	2.07

Xcel Energy was granted a variance to charge FCA rates based on the forecast of fuel costs in the upcoming month, rather than the two-month average cost per kWh required by Minnesota Rules. Xcel Energy also adjusts its rates to refund or recover previous over- and under-recoveries of its energy costs through a monthly (2-month lag) true-up. Dakota Electric and Otter Tail both have an annual true-up to refund or recover previous over- and under-recoveries of their energy costs.

One of the *Report's* primary focuses is the Department's review of the pass-through and allocation of MISO costs and revenues in the utilities' fuel clause adjustment mechanisms. Throughout its *Report*, the Department focused on each company's efforts to minimize energy and transmission costs for Minnesota retail customers. Please see pp. 29 - 34 of the Department's *Report* for the Department's discussion of the effects of the MISO Day 1 markets on Minnesota ratepayers.

In Attachment E9 of the *Report*, the Department provided a comparison of each utility's average residential customer's monthly electric bill for the most recent calendar-year of 2015. As shown below in Table 2, Otter Tail had the highest average monthly residential bill of \$88.67, followed by Dakota Electric at \$83.86, Xcel Energy at \$76.21 and Minnesota Power at \$64.30 per month. In addition, Table 2 shows the amounts in energy charges plus fuel clause adjustments that residential customers paid during calendar year 2015. The ranking from highest to lowest average monthly amounts paid are: Dakota Electric with a 12-month average of 11.91¢/kWh, Xcel Energy with an average of 10.67¢/kWh, Otter Tail with an average of 8.35¢/kWh, and Minnesota Power with an average of 7.45¢/kWh. However, the Department noted that because utilities recover different amounts of fixed costs in their respective energy charges, this comparison is not as useful as the average residential monthly bill comparison.

Utility	Avg. Residential Monthly Electric Bill (\$)	Avg. Residential Energy Chg. + FCA (¢/kWh)
DEA	83.86	11.91
MP	64.30	7.45
Otter Tail	88.67	8.35
Xcel Energy	76.21	10.67

⁷ Department *Report* Attachment E4.

⁸ Department *Report* Attachment E5.

⁹ Department *Report* Attachment E6.

¹⁰ Department *Report* Attachment E7.

Another focus of the *Report* is whether the electric utilities, accurately adjusted their energy rates to reflect changes in fuel costs and revenues related to MISO Day 2 charges including asset-based management and ASM. The Department also focused on variance analysis and volatility, by comparing costs and revenues to historical information, and allocation of costs and revenues between retail and wholesale prices.

Throughout the *Report*, the Department's analysis was comprehensive and thorough. The Department's initial recommendation is at the end of its *Report*. In subsequent filings, the Department revised its recommendations.

In its *Report*, the Department recommended the following:

- Acceptance of the utilities' MISO Day 1 reporting;
- Acceptance of the utilities' MISO Day 2 reporting;
- Acceptance of the utilities' ASM reporting;
- Acceptance of the compliance filings required by Commission Order, as discussed in Section III, items A through M, of the Report.

In addition, the Department raised the following topics as potential areas of conversation that the Commission may want to address at the March 1, 2018 agenda meeting. They are:

- Discontinue Xcel Energy's requirement to provide information on nuclear fuel expenses pursuant to Commission Order in E-002/M-81-306;
- Adoption of the Nuclear Regulatory Commission (NRC) standard of holding utilities accountable for all events that occur at their generating facilities, whether due to work performed by a contractor or a direct employee of the utility.

Discontinuance of Nuclear Sinking Fund Reporting Requirement

The Department recommends that the Commission discontinue the Nuclear Sinking Fund reporting requirement established via Commission Order on July 14, 1981 (Docket No. E-002/M-81-306). The Department notes that there have been no changes to this schedule since the FYE15 AAA filing and Xcel Energy is no longer required to pay the Department of Energy's storage assessment.

Xcel Energy did not comment on the Department's recommendation in its *Reply Comments*, so the Commission may wish to ask Xcel Energy to respond to the Department's recommendation at the March 1, 2018, agenda meeting.

Adoption of Industry Standard Regarding Unplanned (Forced) Outages

This recommendation stems from the Commission requirement that the Department monitor the electric utilities requirement to work with their contractors to identify and develop "reasonable contingency plans to mitigate against the risk of delays or lack of performance

when contractors perform poorly and increase costs during plant outages.”¹¹ The Department notes that the utilities have not advanced this discussion despite multiple Department attempts at generating useful discussion and identification of ways to ensure ratepayers are better protected from delays or lack of performance through the lessons learned by the utilities.

The Department notes that, regardless of who performed the work, the NRC holds electric utilities with licenses to operate nuclear generation facilities responsible for all events that occur at such facilities. The Department suggests that such a standard, including responsibility for incremental costs of replacement power due to forced outages caused by improper work, may be appropriate for all Minnesota non-nuclear facilities.

Both Otter Tail and Xcel Energy addressed the Department’s recommendation in their respective *Reply Comments* with Otter Tail noting that a similar proposal was referred to the Commission’s investigation on the future of FCA’s in Docket No. E-999/CI-03-802 (03-802 Docket). OTP recommended that the current proposal should be referred to the 03-802 docket. Xcel Energy also recommended that the Commission take up the Department’s proposal in the 03-802 Docket. In addition, Xcel Energy opposed the Department’s recommendation noting that it’s important to consider the facts of each situation and the Department’s proposal would do away with analysis altogether and simply ask whether an outage was due to “foreign material” or “improper work” by a contractor. Xcel Energy does not believe the proposed standard can adequately be substituted for a fact-specific prudence analysis.

In its *Response Comments*, the Department noted that subsequent to the provision of reply comments in this proceeding the Commission issued its *Order Approving New Annual Fuel Clause Adjustment Requirements and Setting Filing Requirements* (Order) in Docket No. E-999/CI-03-802. The Commission’s Order approved the Department’s proposed FCA reforms. Therefore, the Department withdrew its recommendation regarding the two possible industry standards for FCA reform in this proceeding.

Staff note: Xcel and OTP’s petitions for reconsideration of the Commission’s *Order Approving New Annual Fuel Clause Adjustment Requirements and Setting Filing Requirements* in Docket No. E-999/CI-03-802 are scheduled to be heard at the Commission’s February 22, 2018 agenda meeting. Based on the Commission’s decision at that meeting, some positions may change.

Additional Information Requested by the Department

1. Day-Ahead and Real-Time Ramp Capability Amounts

In its *Report*, the Department noted that beginning May 2016, MP included two new MISO charge types in its fuel clause. They are the Day-Ahead Ramp Capability Amount and Real-Time Ramp Capability Amount. According to the Department, these charge types are associated with MISO’s new Ramp Capability Product, which was implemented on May 1, 2016.

According to the Department:

¹¹ See OP 12 of Commission’s March 15, 2010, Order in Docket No. E-999/AA-08-995.

Prior to the implementation of the Ramp Capability Product, when MISO did not have sufficient ramp capabilities to meet a sudden increase in load served by dispatchable resources, it was forced to call on units providing operating reserves to generate electricity to meet the increased load. At times, this resulted in a shortage of operating reserves and led to a spike in prices for energy or operating reserves, or both. It is cost effective for MISO to dispatch a higher-cost generator in order to have spare capacity at a lower-cost generator with better (i.e. faster) ramp capabilities available to meet fluctuations in demand.

The two new charge types included in MP's fuel clause, the Day Ahead and Real Time Ramp Capability Amounts, represent revenue paid to MISO market participants that provide ramp capabilities. The cost of providing these two ramp capabilities is allocated across all load and exports in the MISO energy market and billed via the Real Time Revenue Neutrality Uplift Amount, an existing charge type that is already included in the fuel clause.

Because the Ramp Capability Product relates directly to operating reserves and energy pricing, is similar to ancillary service, and its cost is recovered through the Revenue Neutrality Uplift charge, which is already recovered through the fuel clause, the Department concludes that it is reasonable for MP to include the Day-Ahead and Real-Time Ramp Capability Amounts in its fuel clause. If those two new charge types were to be excluded from the fuel clause, ratepayers would have to pay for the costs of ramp capabilities (via the Real-Time Revenue Neutrality Uplift Amount), but would not receive any of the revenues.

Since the Department was unable to determine whether Otter Tail or Xcel Energy included these new MISO charges in their respective FCA's the Department requested that they respond in reply comments on the inclusion of the two charges.

In their respective *Reply Comments* both Otter Tail and Xcel Energy responded affirmatively to the Department's question regarding the inclusion of the two new MISO charges into their respective FCA's. Xcel Energy stated that it initially included its Day-Ahead and Real-Time Ramp Capability Amounts in their FCA by combining them with their Ancillary Services Market (ASM) report schedules. Otter Tail stated that its Day-Ahead and Real-Time Ramp Capability Amounts can be found in Part E, Section 10, Attachment I-1, and Part H Section 3, Attachment K of its initial filing.

In *Response Comments* the Department agreed with the inclusion of the Day-Ahead and Real-Time Ramp Capability Amounts in Xcel Energy's and Otter Tail's, respective FCAs. However, for clarification purposes, the Department recommended that Xcel Energy report these new charge types as separate line items rather than combining them with other MISO ASM charge types in future AAA filings.

2. Specific additional information requested from Minnesota Power

On page 3 of the *Report*, the Department notes that MP's auditors identified two instances where the difference in the "average monthly cost of fuel consumed per ton" and the "average monthly cost of fuel purchased per ton" was greater than 5 percent. The auditors reported that MP's management explained the variance as primarily due to new transportation contract prices with its coal transporter being higher than the previous transportation contract. In response, the Department recommended that MP "provide a narrative in reply comments explaining and discussing this issue with enough detail to allow the Commission to make a determination regarding the reasonableness of the corresponding energy costs that were charged to MP's ratepayers."

MP provided the requested narrative in a **Trade Secret/Non-Public** response.

The Department reviewed MP's **Trade Secret/Non-Public** response and found:

MP identified the noted exceptions and provided supporting data showing that the cost of fuel consumed falls between the beginning average cost and the cost of purchases during the month for each of these exceptions.¹²

Based on its review, the Department concluded that MP's explanation regarding the average cost of fuel differences identified by its auditor appears reasonable. As a result, the Department concluded that this issue was resolved.

3. Specific additional information requested from Xcel Energy

On page 26 of the *Report*, the Department discussed some issues relating to the calculation of the monthly fuel cost charge. First, upon review of Xcel Energy's FYE16 monthly FCA filings the Department noticed that the "Balance of Unrecovered Expenses" at the end of February 2016 was different from Xcel Energy's calculations. Xcel Energy responded to Department discovery requests by stating that due to migration to a new accounting system in January 2016 the system incorrectly accounted for "Intersystem Sales" which accounted for the approximate \$775k discrepancy discovered by the Department. In its explanation, Xcel Energy noted that it failed to report the adjustment as required by Commission Order dated April 6, 2012 in Docket No. E-999/AA-12-884.

Second, during its analysis, the Department noticed a discrepancy in the calculation of "Total System Costs." Specifically, the difference was traced to the "MISO ASM Charges-Total" line item. Xcel Energy agreed with the Department that the sum of the three components of the "MISO ASM Charges-Total" yields a different total than the one shown in Xcel Energy's calculation. The Department concluded that the total amount is correct, and that the three components were incorrectly entered into Xcel Energy's spreadsheet. The Department verified the amount of the various charges and concluded that the incorrect entries did not affect the calculation of the FCA charge.

¹² See Department *Response Comments* p.2.

In an attempt to clarify the record, the Department recommended that Xcel Energy provide, in *Reply Comments*, a discussion of the measures it has taken to alleviate the reoccurrence of incorrect data entry and failure to identify and justify material adjustments.

In *Reply Comments* Xcel Energy provided the requested discussion thanking the Department for its effort in verifying the FCA calculations and apologized for any issues that made the review process more difficult. Xcel Energy agreed to file corrected attachments in the relevant monthly FCA dockets with a narrative explaining the corrections. In addition, Xcel Energy stated that it has added an additional reviewer to the monthly FCA process, and commits to providing narrative in the monthly FCA cover letter that will identify any new adjustments or changes to the data formats. Finally, Xcel Energy stated that it is willing to work with the Department to streamline future FCA reports to ease review.

In *Response Comments* the Department found that Xcel Energy had taken appropriate measures to alleviate the reoccurrence of incorrect data entry and the failure to identify and justify material adjustments. As a result, the Department concluded that the issue was resolved but noted that it will continue to monitor this issue in future AAA filings.

Staff Analysis

Staff reviewed the utilities' filings along with the various comments provided by the parties. Staff concludes that the parties' analyses addressed all the relevant issues and does not have anything further to add.

Decision Options

Acceptance of Filings

1. Accept all the electric utilities FYE16 AAA reports as filed, and subsequently amended, as being substantially complete as to Minnesota Rules 7825.2390 through 7825.2920. [Department, MP, Otter Tail, Xcel Energy]

and,

2. Accept the compliance filings required by Commission Order, as discussed in Section III, items A through M of the *Report*. [Department]

and,

3. Accept the utilities' MISO Day 1, MISO Day 2, and ASM reporting. [Department]

or,

4. Reject one or more electric utilities' FYE16 AAA reports, MISO Day 1, MISO Day 2, or ASM reporting.

Discontinuance of Nuclear Sinking Fund Reporting Requirement

5. Discontinue the Nuclear Sinking Fund reporting requirement established via Commission Order on July 14, 1981 (Docket No. E-002/M-81-306). Require Xcel Energy to restart the reporting requirement should it become responsible for nuclear fuel interim storage and disposal expenses to the Department of Energy in the future.

or,

6. Continue the Nuclear Sinking Fund reporting requirement established via Commission Order on July 14, 1981 (Docket No. E-002/M-81-306).

Adoption of Industry Standard Regarding Unplanned (Forced) Outages

7. Accept the Department's withdrawal of its FCA reform recommendations. [Department]

Day-Ahead and Real-Time Ramp Capability Amount

8. Approve the Department's recommendation that the Day-Ahead and Real-Time Ramp Capability Amounts are appropriate for recovery through the electric utilities respective FCAs. [Department, MP, Otter Tail, Xcel Energy]

and,

9. Require Xcel Energy to report these new charge types as separate line items rather than combining with other charges. [Department]

MP's explanation regarding the two average cost of fuel differences

10. Accept MP's explanation regarding the two average cost of fuel differences identified by its auditor as reasonable. [MP, Department]

or,

11. Find that MP's explanation regarding the two average cost of fuel differences identified by its auditor as not reasonable and require additional information.

Alleviating the reoccurrence of Xcel Energy providing incorrect data and the failure to identify and justify material adjustments

12. Accept that Xcel Energy has taken appropriate measures to avoid a reoccurrence of providing incorrect data and failure to identify and justify material adjustments. [Xcel Energy, Department]

or,

13. Find that Xcel Energy has not taken appropriate measures to avoid a reoccurrence of providing incorrect data and failure to identify and justify material adjustments and require additional measures.