

Minnesota Public Utilities Commission
Staff Briefing Papers

Meeting Date: December 15, 2016 * Agenda Item # 5

Company: Minnesota Power (“MP” or the “Company”)

Docket No. E-015/MR-16-709
In the Matter of the Petition of Minnesota Power for Approval of a New Base Cost of Fuel and Purchased Energy

Issues: **Should the Commission approve Minnesota Power’s proposed new base cost of fuel and purchased energy, which is to continue the existing rate of 1.018 cents per kilowatt-hour during the interim rate period?**

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Relevant Documents

MP’s - Initial Filing November 2, 2016
Department - Comments December 2, 2016
MP’s – Reply Comments December 5, 2016

The attached materials are workpapers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless otherwise noted.

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December 6, 2016

Statement of the Issues

Should the Commission approve Minnesota Power's proposed new base cost of fuel and purchased energy, which is to continue the existing rate of 1.018 cents per kilowatt-hour during the interim rate period?

Background

Herein, the phrases "base cost of energy" and "base cost of fuel and purchased power" are used interchangeably.

The base cost of energy, in general, recovers purchased energy and the cost of fuel to generate electricity. A new base cost of fuel and purchased energy rate is ordinarily established at the time a rate case is filed. Ongoing, in addition to the base cost of energy rate, a fuel clause adjustment (FCA) rider mechanism is used to account for any fluctuations in the cost of fuel and/or purchased energy costs.

Minnesota Power's Petition

MP's new Base Cost of Fuel and Purchased Energy petition was filed in conjunction with its general rate case (Rate Case) in Docket No. E-015/GR-16-664.

The Company proposed to maintain its existing Base Cost of Fuel and Purchased Energy of 1.018 cents per kilowatt hour (kWh) during the interim rate period.

For the 2017 test year, MP projected the average energy fuel costs to be 2.103 cents per kWh. Essentially, the 1.085 cents per kWh rate differential (2.103 minus 1.018) between the projected average cost and the existing base cost of energy would continue to be accommodated through the Company's existing fuel clause adjustment mechanism during the rate case. The 2017 test year average energy fuel cost was used in the rate case to calculate MP's present and proposed revenues.¹

The reason MP has proposed to not update its base cost of energy at this time is because MP has proposed a redesign and other changes to the fuel clause mechanism which are presented in its concurrent rate case. MP's petition and the Department's comments discuss these proposed changes in more detail. Below is a paraphrased summary of MP's proposed fuel clause changes:

- To adopt a *forecasted* fuel clause adjustment methodology with a true-up mechanism beginning with the implementation of final-approved General Rates;

¹ MP Petition, p. 5. The test year average fuel and purchased energy cost adjustment (FPE Adjustment) was applied to all applicable kWh of energy. Staff Comment: The FPE is then adjusted by each rate classes' E8760 Allocator Factor.

- To recover total fuel and purchased energy costs through the fuel clause adjustment (rather than through both a base cost rate and a FCA factor); and
- To include recovery of specific costs through the fuel clause, some which historically have been recovered in base rates (e.g., chemicals/reagents), and some potential costs/revenues anticipated to be incurred in future (e.g., regional ISO charges, other than MISO's).

Certain aspects of MP's proposed changes to its fuel & purchased energy cost recovery may require variances to certain Minn. Rules; consequently, MP requested variances, to the extent needed, under Minn. Rule 7829.3200.²

Upon the implementation of General Rates at the conclusion of the rate case, should MP's proposed new fuel clause methodology be adopted, MP projected the average cost of fuel and purchased energy rate would be 2.137 cents per kWh (with the inclusion of certain costs currently not part of the FCA).³

Department of Commerce Comments

The Department's comments thoroughly discuss this petition and will not be repeated here.

The Department recommended that the Commission approve MP's proposed base cost of fuel and purchased energy rate of 1.018 cents per kWh. The Department also recommended two clarifications to be included within the Commission's Order: first, to not preclude parties' from disputing related base cost of energy assumptions in their ongoing investigation; and second, to allow for the base cost of energy to be updated in the rate case upon implementation of final rates. The Department's recommendations are designated within the Decision Alternatives.

The Department requested MP to submit Reply Comments to provide the following additional information:

- Indicate whether the Company's proposed interim rates include anything similar to the "transition adjustment" that MP proposed in the Company's 2008 rate case. If so, MP should identify the amount of any such adjustment; and
- MP fully explain how the Company calculated its proposed adder of \$0.01162 per kWh referenced above [i.e., page 4 of Petition].

² MP Petition, pp. 6-7.

³ Staff Comment: The inclusion of certain costs not currently part of the FCA add 0.0034 cents per kWh to the test year average cost of 2.103 cents per kWh. Note also that the 2.137 cents per kWh average cost is prior to applying the class-specific E8760 allocator factor.

Minnesota Power's Reply

In its reply comments, Minnesota Power first affirmed that no “transition adjustment” costs are included in the proposed interim rates. However, a fuel clause “transition” cost recovery is proposed within the rate case and is discussed by Company witness Leanne Oehlerking-Boes.

Second, MP clarified that its filing had a typographical error, and that the fuel clause adjustment adder value of \$0.01162 per kWh should have read \$0.01085 per kWh.⁴ MP confirmed that the proper values were used for calculation purposes throughout the Petition and the Rate Case.

Staff Comments

Staff agrees with the Department's recommendations. The Company's proposals to modify the fuel cost recovery mechanisms are presented within the rate case and will be further evaluated through the participation of various stakeholders.

Decision Alternatives

Base Cost of Energy

1. Approve MP's proposal to continue the existing base cost of energy rate of \$0.01018 per kWh with the implementation of interim rates; (MP, DOC) **or**
2. Reject the Company's proposal to retain the existing Base Cost of Energy and require the Company to update the Base Cost of Energy rate to the projected test year average rate of \$0.02103 per kilowatt hour (without modifying costs elements), or some other rate the Commission may decide. (No party)

If Commission Approves Petition

3. Clarify that approval of the proposed revised base cost of energy does not preclude any party from disputing the assumptions used in MP's Petition and MP's general rate case filing, or the Commission from adopting different assumptions than those used in this Petition and MP's general rate case filing, when reviewing and determining final rates in the corresponding general rate case, or in any other relevant proceeding; **and** (DOC)
4. Clarify that upon implementation of final rates in the corresponding general rate case, Docket E-015/GR-16-664, a revised base cost of energy will be established using updated class and cost information adopted in that case, subject to the terms of the Commission's final Orders in the corresponding general rate case, and any other relevant docket. (DOC)

⁴ The value \$0.01162 is the FCA adder \$0.01085 multiplied by the residential classes' E8760 Allocator.