

Minnesota Public Utilities Commission
Staff Briefing Papers

Meeting Date: December 10, 2015 **Agenda Item # 8***

Company: Northern States Power Company d/b/a Xcel Energy (Xcel or the Company)

Docket No. E-002/MR-15-827
In the Matter of the Application of Northern States Power Company for
Approval of a New Base Cost of Energy

Issue: Should the Commission approve Xcel's proposed new base cost of energy?

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Relevant Documents

Xcel Energy - Initial Filing (TS)..... Nov. 2, 2015
Department of Commerce - Comments (TS) Nov. 19, 2015
Xcel Energy - Reply Comments (TS) Nov. 25, 2015

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Statement of the Issue

Should the Commission approve Xcel's proposed new base cost of energy?

Background and Filing Summary

Xcel Energy's Petition

Xcel's new Base Cost of Energy petition was filed in conjunction with its general rate case (Rate Case) in Docket No. E-002/GR-15-826.

The Company has proposed a Base Cost of Energy (BCOE) of \$0.02714 per kilowatt hour (kWh), a \$0.00066 per kWh, or 2.4%, decrease over the current \$0.02780 per kWh base cost of energy recently established (Docket No. E-002/MR-13-869).

The Company's proposed Base Cost of Energy Rate is developed using Total NSP System forecasted fuel/purchased energy (fuel) and forecasted retail sales.¹ To determine the Minnesota fuel cost for the 2016 test year, the Company used the Total System's projected per kWh unit cost, multiplied by the net Minnesota jurisdictional projected monthly calendar sales.

Department of Commerce Comments

The Department stated Xcel has not changed the methodology used to calculate the class-specific base cost of energy rates and that the proposed changes in the class-specific base cost of energy are only due to the overall decrease in the base cost of energy. Since the Company's allocation of fuel costs to classes will be one of the items to be addressed in the Rate Case, the Department agreed with this aspect of Xcel's approach and focused its review on the determination of the proposed overall level of the base cost of energy.

The Department found discrepancies between the cost energy used in Xcel's *Petition* and the cost of Energy used in Xcel's *Rate Case*:

Costs	Xcel's Petition Attachment 1		Xcel's Petition Attachment 2	Difference
	line #	(\$000)	(\$000)	(\$000)
Total System	14	\$1,189,381	\$1,049,004	\$140,378
Intersystem Sales	15	(\$63,565)	(\$57,476)	(\$6,089)
Windsorce	16	(\$5,258)	(\$5,258)	\$0
Net System Fuel	20	\$1,120,558	\$986,269	\$134,289
Proposed base cost of fuel per kWh	31	2.67930	2.35354	

¹ Total NSP System is comprised of NSP-Minnesota and NSP-Wisconsin and the forecasted sales of the five jurisdictions they both serve.

The Department noted that, when the \$1,120,558,000 is divided by retail system MWh sales of 42,051,592 MWh sales, minus 145,740 MWh for sales lost to WindSource, minus 83,002 MWh that Xcel estimated would be lost to Community Solar Gardens, the system-wide base cost of energy on a kWh basis is \$0.0267930 or 2.67930 cents. However, if Attachment 1's information were used, restoring the sales and removing the costs for the Community Solar Gardens, the effect of this change is a revised cost of \$1,120,558,000 divided by sales of 41,905,852 MWh (41,822,850 MWh + 83,002 MWh), for a base cost of fuel at \$0.026740 per kWh.

Since the Department was able to confirm Attachment 2's information, the Department recommended that the \$986,269,000 divided by retail system sales of 41,905,852 MWh, or \$0.0235354 per kWh be used for base cost of energy.

The Department added that, while it would be possible to require Xcel to reconcile and re-file numerous schedules for its rate case and interim rates that could be affected, the Department does not recommend that the Commission do so. Such an approach would not only be inefficient, it could lead to confusion in the record. Instead, to ensure that Xcel's rates are set appropriately and to ensure that ratepayers' rates accurately reflect the decisions in the rate case as soon as those decisions are known, the Department recommended that Company identify in its Reply Comments how all relevant rate case factors (for example, bad debt and any other rate base or income statement items) are affected by this change in the base cost of energy. Furthermore, a Commission decision on this proposed new base cost of energy does not preclude parties from disputing the assumptions used in this Petition and in their general Rate Case.

The Department added that, since Xcel intends to implement interim rates on January 1, 2016 and the Department recommended that the Commission accept Xcel's petition as being complete on November 10, 2015 rather than November 2, 2015, the effective date for interim rates should be adjusted.

The Department summarized its recommendations as follows:

- The Commission set Xcel's overall base cost of energy at \$0.0235354 per kWh.
- The effective date for interim rates should be adjusted to reflect the completion date that the Commission determines in the corresponding rate case.
- Instruct Xcel to file, after its rate case is completed, a final base cost of energy that reflects the Commission's decisions in the rate case, the then-current level of costs and lost sales due to Community Solar Gardens, and any other relevant factor.

Xcel Reply Comments

In reply, Xcel explained that Attachments 1 and 2 do not present "mismatched" costs. Instead, they serve different purposes - Attachment 1's purpose is to show the Company's proposed recovery of fuel costs from customers while Attachment 2's purpose is to show the proposed fuel expense and energy purchases included in the 2016 test year. The Company also provided a

reconciling schedule that bridges the Initial Petition's two attachments and confirms that they are both using the same numbers.

Xcel also observed that the Community Solar Gardens (CSG) program will not lead to "lost sales." Under the program, sales to its end-use customers will continue, and they will receive a bill credit in the amount of Xcel purchasing cost of the solar garden's output. This cost is what Xcel projected in its Petition and if, as recommended by the Department, these costs are removed, the Company will still need the energy it assumed would be provided by the CSG. Therefore, Xcel will incur costs for that energy and those costs will have to be accounted for in the BCOE.

Xcel also addressed Staff's question regarding whether CSG sales should be backed out of the BCOE calculation on a one-to-one basis, much like those for the Windsource Program. The Company explained that the Windsource Program differs from the CSG in that Windsource customers do not pay the fuel clause cost, and the PPAs associated with the program are not eligible for Fuel Clause recovery. Therefore, the Windsource PPAs are deducted from system purchases, and the MWh Sales are deducted from both the NSP System and Minnesota Jurisdiction numbers.

Finally, Xcel disagreed with the Department's recommendation that the effective date for interim rates be adjusted. Minnesota law and Commission's Rules address completeness and provide that a rate case application should be accepted if it is "in substantial compliance with applicable filing requirements, as required by the Commission's Rules". Xcel believes that its case meets Commission Rules; therefore, no adjustment is necessary.

Staff Analysis

Considering that Xcel has filed several rate cases in recent years, Staff found it surprising that, unlike previous cases, the Base Cost of Energy recommendations were so far apart. Staff believes that Xcel's bridge schedule supports the calculation Xcel provided in the initial filing.

Staff finds that the reason for the Department's lower calculation is, in part, a result of using total adjusted sales (41,905,852 MWh) rather than Minnesota-jurisdictional sales; the higher divisor yielded an inordinately lower Base Cost of Energy factor.

During its review of Xcel's Attachment 1, Staff not only questioned the handling of the CSG in the calculation but also whether the CSG should have been included in the calculation. As previously discussed, Xcel explained, to Staff's satisfaction, how the CSG and the Windsource Program differ. The concern about whether the CSG should be included is a result of Staff not being persuaded that CSG will achieve the forecasted operational level during the 2016 test year.² In reply comments, Xcel did provide a Base Cost of Energy calculation that assumes no Minnesota Solar Gardens - \$0.026800 per kilowatt hour. In light of the CSG continued implementation delays, Staff believes that use of the \$0.026800 per kilowatt hour factor is more

² Xcel Energy fuel clause filings reported purchased solar garden energy costs incurred to date totals less than \$1,000 (Docket Nos. 15-961 and 15-1012).

appropriate in this proceeding. Since Xcel calculated the revenue deficiency impact of adopting such a factor to be less than \$10,000, if the Commission were to adopt this factor, there would be no “spill-over” effects to the general rate case.

Regardless of which Base Cost of Energy factor the Commission finds to be most appropriate at this time it is important to point out that the base cost of energy is developed using projections. Ultimately, Xcel’s fuel clause rider (or adjustment) mechanism (the FCR or the FCA) will true-up any actual deviations from the base cost of energy; therefore, regardless of the base cost of energy established in this docket, ratepayers will ultimately pay the same cost for energy.

Decision Alternatives

Base Cost of Energy

1. Approve Xcel’s proposed new Base Cost of Energy of \$0.02714 per kilowatt hour.
2. Approve the Department’s proposed new Base Cost of Energy of \$0.0235354 per kilowatt hour.
3. Approve Xcel’s Base Cost of Energy without Community Solar Gardens calculation of \$0.026800 per kilowatt hour.
4. Reject both Xcel’s and the Department’s proposed new Base Cost of Energy and retain the existing Base Cost of Energy rate of \$0.02780 per kilowatt hour.

Implementation Date

5. Approve Xcel’s proposed implementation date for the new Base Cost of Energy to be concurrent with the January 1, 2016 implementation of interim rates in Docket No. E-002/GR-15-826.
6. Approve an implementation date for the new Base Cost of Energy to be concurrent with the implementation of interim rates in Docket No. E-002/GR-15-826 on January 4, 2016.
7. Approve the Department’s proposed implementation date for the new Base Cost of Energy to be concurrent with its recommendation to implement interim rates in Docket No. E-002/GR-15-826 on January 11, 2016.

Miscellaneous

8. Instruct Xcel to file, after its rate case is completed, a final base cost of energy that reflects the Commission’s decisions in the rate case, the then-current level of costs and lost sales due to Community Solar Gardens, and any other relevant factor.
9. Clarify that approval of a new Base Cost of Energy does not preclude any party from disputing the assumptions used in this petition (such as projected sales), or the

Commission from adopting different assumptions than those used in this petition, when reviewing and determining final rates in the general rate case (Docket No. E-002/GR-15-826), the solar-garden 13-867 docket, in the Company's next filing related to the variances referenced in the Department's November 19, 2015 comments in this docket, or in any other relevant proceeding.

10. Clarify that the Company's FCR language may be addressed in the general rate case (Docket No. E-002/GR-15-826).