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**VIA E-FILING**

Mr. Dan Wolf  
Public Utilities Commission  
121 7th Place East, Suite 350  
St. Paul, MN 55101

**Re: In the Matter of the Review of 2011-2012 Annual Automatic Adjustment Reports  
Docket No. E999/AA-12-757**

Dear Mr. Wolf:

The Minnesota Large Industrial Group (“MLIG”) continues to appreciate the Minnesota Department of Commerce’s efforts to facilitate stakeholder discussions on reforming the fuel clause adjustment (“FCA”) mechanism.

**FCA Options**

In its comments filed December 31, 2014, the Department identified four options for reforming the FCA: (1) rolling-average FCA, (2) fuel costs set in a rate case, (3) fuel costs set in a rate case with index adjustments, and (4) fuel costs set in a rate case with band adjustments. MLIG generally agrees with the Department’s analysis of the difficulties presented by the current FCA mechanism as well as the advantages and disadvantages of the four incentive-based alternatives.

While MLIG remains open to further discussions of any of the options presented by the Department, it has previously recommended a variation on option (4) that should also be considered. Specifically, in the letter attached to MLIG’s December 31, 2014 comments, MLIG recommended a cap approach that would set a fuel and purchased energy cost recovery level in a rate case, require automatic adjustments for costs below that level, and cap automatic adjustments for costs above that level (e.g. at +3%). This approach would provide a clear incentive for utilities to manage fuel and purchased energy costs to avoid reaching the cap, would appropriately allocate the burden of proof to utilities for setting cost recovery levels and requesting recovery amounts above the cap, and would ease the administrative burden on regulators and ratepayers by presuming that costs under the cap are reasonable. And, unlike



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most of the other options identified by the Department, this cap approach would also insure that ratepayers receive the benefit from any decrease in costs between rate cases.<sup>1</sup>

### **Next Steps**

In its December 31, 2014 comments, the Department recommended that the Commission request that parties file comments on these options or convene parties to further discuss these options, or both. As noted in MLIG's December 31, 2014 comments, MLIG and other parties participated in discussions of FCA reform in late 2013 and early 2014. These discussions included an in-person meeting as well as an exchange of FCA reform proposals and comments on those proposals. Through this stakeholder process, previous comments filed in this docket, and comments filed during this current comment period, there is extensive information about FCA reform options in the record and the positions of various parties' on those options.

If helpful to the Commission, MLIG would be supportive of the Commission requesting further comments on FCA reform options as framed in the Department's December 31, 2014, comments. However, given the volume of information already developed on these issues, a long time period should not be necessary for parties to file and respond to such comments. Similarly, MLIG would be supportive of a Commission-organized meeting of the parties to further discuss FCA reform options. But again, a long-lead period for such a meeting should not be necessary since parties have had ample time to develop their ideas and positions. However the Commission chooses to proceed, MLIG urges the Commission to establish a timeline for a decision on FCA reform within the next six months.

MLIG continues to believe that the FCA is long-overdue for reform. Utilities recover an enormous amount of money through their respective FCAs and it is nearly impossible for ratepayers and regulators to effectively review these costs. Thus, MLIG urges the Commission to establish a firm timeline for moving these discussions to a conclusion and implementing incentive-based FCA reform.

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<sup>1</sup> See the attachment to MLIG's December 31, 2014 comments for a more detailed explanation of this option. This option also is similar to the proposal made by the Office of the Attorney General–Residential Utilities and Anti-trust Division (“OAG”), which was most recently described in the OAG's December 30, 2014 comments in this docket.



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Very truly yours,

*/s/ Sarah Johnson Phillips*

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