



85 7th Place East, Suite 500, St. Paul, MN 55101-2198

Main: 651.539.1500

Fax: 651.539.1549

mn.gov/commerce/energy

December 4, 2013

Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Comments of the Division of Energy Resources of the Minnesota Department of Commerce**
Docket No. E002/MR-13-869

Dear Dr. Haar:

Attached are the comments of the Division of Energy Resources of the Minnesota Department of Commerce (Department) in the following matter:

Xcel Energy's Request for Approval of a New Base Cost of Energy.

The petition was filed on November 4, 2013. The petitioner is:

Paul J Lehman
Manager, Regulatory Compliance & Filings
Xcel Energy
414 Nicollet Mall
Minneapolis, MN 55401

The Department recommends **that the Commission retain the current base cost of fuel rate** and is available to answer any questions the Commission may have.

Sincerely,

/s/ SACHIN SHAH
Rates Analyst

SS/lt
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET NO. DOCKET NO. E002/MR-13-869

I. SUMMARY OF PROPOSAL

On November 4, 2013, Xcel Energy (Xcel or the Company) submitted a miscellaneous tariff change seeking authority from the Minnesota Public Utilities Commission (Commission) to establish a new base cost of energy for interim rates in conjunction with the Company's general electric rate case filing in Docket No. E002/GR-13-868 (Rate Case).

II. BACKGROUND

The use of a fuel-adjustment clause (FCA)¹ requires electric utilities to develop a base cost of energy when calculating their test-year revenue requirements in general rate cases. If approved, this filing would result in an increase in the Company's base cost of energy from \$0.02729 to \$0.02780 per kilowatt-hour sales, or an increase of \$0.00051 per kilowatt-hour sales, an approximately 1.9 percent increase in the base established approximately a year ago.²

III. DEPARTMENT ANALYSIS

¹ Xcel refers to their FCA as a fuel clause rider, or FCR.

² Xcel's current base cost of energy of \$0.02729 per kWh was approved on December 20, 2012 by the Commission in Docket No. E002/MR-12-1150. The Commission's November 19, 2013 Order on Xcel's Compliance Filing, pursuant to the Commission's September 3rd, 2013 *Findings of Fact, Conclusions of Law, and Order*, in Docket No. E002/GR-12-961 includes the revised base cost of energy of \$0.02729 per kWh.

A. BACKGROUND

Minnesota Rules Part 7825.2400 and 7825.2600 define the “base electric cost” (base cost of energy) and other components of electric energy adjustments and address the computation and application of electric energy adjustments.

As discussed below, the Department notes that the Commission approved significant changes to the calculation and operation of Xcel’s FCA.

Historically, the fuel adjustment rules provided for a two-step procedure allowing the Company (and other electric utilities) to recover on a monthly basis their current period cost of energy. “Current period” is defined as the most recent two-month moving average used by electric utilities in computing an automatic adjustment of charges (Minnesota Rules Part 7825.2400, subpart 13).

First, the base cost of energy (fuel and purchased power costs in the test year) is recovered in base rates through the energy charge included in each tariff that is approved by the Commission in a rate case.

Second, the fuel adjustment appearing on the monthly bills represents the amount per kWh, up or down, that the current period cost of energy deviates from the base. This deviation is known as the fuel adjustment and is allocated monthly to classes on a direct kWh-use basis through the monthly FCA filings.

In successive Commission Orders, starting with the Commission’s June 27, 2000 Order in Docket No. E002/M-00-420 and more recently the Commission’s May 4, 2012 Order in Docket No. E002/M-11-452, the Commission granted Xcel variances to Minnesota Rules 7825.2400 and 7825.2600³ to:

- a) Allow the monthly FCA to be based on the use of a month-ahead forecast of energy costs;
- b) Allow the monthly FCA to be prorated based on the number of days in each billing cycle; and
- c) Allow a monthly true-up of the differences between costs and recovery.

The Department notes that if any significant adjustment to the cost of energy occurs during the Company’s next filing related to the variances referenced above and/or during the pendency of the Rate Case, then the base cost of energy may need to be revised subsequent to the Commission’s decision in this docket, and reflected in final rates.

³ The Commission granted Xcel’s request for variances to the Fuel Clause Rules for an additional three years, through July 16, 2014.

In addition, the FCA methodology approved in the Company's 2005 rate case proceeding reduced the former recovery of fuel costs from occurring in two places on bills (base rates and the FCA) to recovery in one place on bills.⁴ The fuel adjustment is calculated in a manner that 1) results in the cost of energy appearing in one place on the bills to reflect the unique cost of energy characteristics of each class and 2) allows Xcel to recover all of its actual cost of energy through the FCA (that is, the base cost of energy is no longer recovered through base rates).

While it is still necessary to set a base cost of energy rate in a rate case, the base cost is further allocated to each customer class. This process results in the following: 1) the total cost of energy is shown on one line in customer bills and 2) each class has its own, class-specific, base cost of energy.

The Company's red-lined version of its proposed FCA tariff, included in the instant filing, incorporates these changes, details the class-specific base cost of energy, and states how the FCA is calculated. The Department considers the information provided in Xcel's instant filing to meet the requirements of Minnesota Rules and Commission Orders as provided above.

B. DEPARTMENT'S REVIEW OF XCEL'S BASE COST OF ENERGY

Xcel's proposed FCR tariff sheet proposes to increase the base cost of energy from \$0.02729 to \$0.02780 per kilowatt-hour, which is a 1.9 percent increase. The Company also proposes to revise the class-specific base cost of energy rates. However, Xcel has not changed the methodology used to calculate the class-specific base cost of energy rates. That is, Xcel's proposed changes in the class-specific base cost of energy are only due to the overall increase 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 agrees with Xcel's approach at this time.

Therefore, the Department focused its review on the determination of the proposed overall increase in the base cost of energy.

Attachment 2 in the Petition, "Base Cost of Energy Reconciliation," indicates that the Company used the same total cost breakdown for the proposed test year ending December 31, 2014 in the Petition (Attachment 1) in determining its base cost of energy as the Company uses in the corresponding Rate Case (Docket No. E002/GR-13-868). As such, it appears that Xcel used the same base cost of energy for the Petition and for the Rate Case.

The Department reviewed the above-mentioned schedule that supports and breaks out the costs that make up the base cost of energy. Attachment 1 in the Petition shows the following system base cost of energy calculation: total test year system fuel cost for retail customers of \$1,134,210,000 divided by retail system MWh sales of 40,801,580, which equals a system-wide base cost of energy on a kWh basis of \$0.0277982 or 2.779 cents.

⁴ Commission's February 12, 2007 Order in Docket No. E002/GR-05-1428.

The Company used the monthly system costs multiplied by the net Minnesota jurisdictional calendar month sales to determine the Minnesota fuel cost, resulting in a Minnesota base cost of energy on a kWh basis of \$0.0278028 or 2.7803 cents. When both costs are rounded to three decimal figures, the base cost of energy on a kWh basis is 2.780 cents. This amount reconciles with the base cost of energy proposed by the Company in the amount \$0.02780 per kWh.

Because the Commission issued an Order regarding Xcel's sales forecast on September 3, 2013 (Docket No. E002/GR-12-961), the Department also examined whether the sales that Xcel used in the instant docket were similar to the sales approved in that recent rate case. Xcel used much lower retail sales for the Minnesota jurisdiction in this docket (30,069,689 MWh) than those recently approved in the rate case (30,844,779 MWh⁵). The difference, 775,090 MWh, is 3 percent less than the level approved in the rate case. In addition, the system-wide sales that Xcel used in the instant docket are lower than the system-wide sales that Xcel forecasted for the period July 2012 through June 2013 (Docket No. E999/AA-13-599). Specifically, Xcel used system sales of 40,801,580 MWh in this docket, compared to a forecast for the 2012-13 period of 41,311,806 MWh.⁶ The difference, 510,266 MWh, is 1.2 percent lower than the prior forecast. Finally, despite using lower sales in this docket, Xcel assumed a *higher* cost of fuel in the instant docket than Xcel's forecasted cost of fuel in the most recently filed July 2012 through June 2013 period (Docket No. E999/AA-13-599). Specifically, Xcel forecasted system-wide costs of fuel of \$1,123,221,410⁷ for the July 2012 – June 2013 period, which is 1 percent lower than the \$1,134,210,000 costs assumed in the instant docket. For these reasons, the Department concludes that Xcel's proposed base cost of fuel rate is too high.

The Department examined the base cost of fuel recovery in this docket using Xcel's most recently forecasted cost per kWh for the period July 2012 through June 2013 as indicated in Docket No. E999/AA-13-599. Using the system-wide costs and sales, this calculation is as follows:

$$\$1,123,221,410/41,311,806 \text{ MWh} = \$2.72/\text{MWh}$$

This rate is comparable to Xcel's current base cost of fuel, an outcome that is expected since the Commission set the base cost of fuel for Xcel so recently (Docket No. E002/MR-12-1150). Because there are still open questions about the high replacement power costs that Xcel incurred during the extended outage of Sherco 3 (an issue that was discussed extensively in Xcel's recent rate case, Docket No. E002/GR-12-961), the Department concludes that the Commission should maintain the current base cost of fuel, \$2.729/MWh.

Based on this preliminary review, the Department considers the Company's current base cost of energy of \$2.729/MWh to be reasonable to maintain at this time. Thus, the Department

⁵ Docket No. E002/GR-12-961, Xcel's September 19, 2013 compliance filing, Schedule 2, page 2.

⁶ As indicated in Part E, Section 5, Schedule 1, page 1, line 9, Column 12 Months.

⁷ As indicated in Part E, Section 5, Schedule 1, page 1, line 8, Column 12 Months.

recommends that the Commission maintain the existing base rate. The Department notes that if any significant adjustment to the cost of energy occurs during the Rate Case, then the base cost of energy approved in this docket may need to be revised prior to the Commission's final decisions in the Rate Case, and be reflected in final rates.

C. OTHER ISSUES THAT COULD POTENTIALLY AFFECT XCEL'S BASE COST OF ENERGY

The Department notes that on November 19, 2013 the United States Court of Appeals for the District of Columbia suspended the collection of the nuclear disposal fees that are assessed annually on nuclear power plant operators by the United States Department of Energy (DOE).⁸ Xcel collects the nuclear disposal fee through the FCA. The Department notes that in the 2012 Annual Automatic Adjustment (AAA) filing in Docket E999/AA-12-757, Xcel's August 31, 2013 filing in Part H, Schedule 1, page 1 of 1 shows that Xcel's payments to DOE average about \$12 million per year. The Department will review this issue in the Rate Case.

Thus, the Department recommends that if any adjustment to the cost of energy occurs during the Rate Case as a result of the nuclear disposal fee issue, then the base cost of energy determined in this docket may need to be revised, and reflected in final rates.

IV. DEPARTMENT RECOMMENDATION

Based on our review, the Department recommends that the Commission maintain the current base cost of energy of \$0.02729 per kWh at this point in the rate case. The Department notes that, if any adjustment to the cost of energy occurs during the Rate Case, and/or during the Company's next filing related to the variances referenced above, the base cost of energy may need to be revised. Finally, the Department clarifies that the Company's FCR language may be addressed in the Rate Case.

/lt

⁸ <http://www.startribune.com/nation/232520321.html>

CERTIFICATE OF SERVICE

I, Jan Mottaz, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

Comments of the Minnesota Department of Commerce, **Division of Energy Resources**

Docket No.

E002/MR-13-869

Dated this 4th day of December 2013

/s/Jan Mottaz

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Christopher	Anderson	canderson@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022191	Electronic Service	No	OFF_SL_13-869_MR-13-869
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_13-869_MR-13-869
Alison C	Archer	alison.c.archer@xcelenergy.com	Xcel Energy	414 Nicollet Mall FL 5 Minneapolis, MN 55401	Electronic Service	Yes	OFF_SL_13-869_MR-13-869
James J.	Bertrand	james.bertrand@leonard.com	Leonard Street & Deinard	150 South Fifth Street, Suite 2300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_13-869_MR-13-869
Michael	Bradley	mike.bradley@lawmoss.com	Moss & Barnett	Suite 4800 90 S 7th St Minneapolis, MN 55402-4129	Electronic Service	Yes	OFF_SL_13-869_MR-13-869
James	Canaday	james.canaday@ag.state.mn.us	Office of the Attorney General-RUD	Suite 1400 445 Minnesota St. St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_13-869_MR-13-869
Aakash	Chandarana	Aakash.Chandara@xcelenergy.com	Xcel Energy	414 Nicollet Mall 5th Floor Minneapolis, MN 55401	Electronic Service	Yes	OFF_SL_13-869_MR-13-869
Jeanne	Cochran	Jeanne.Cochran@state.mn.us	Office of Administrative Hearings	P.O. Box 64620 St. Paul, MN 55164-0620	Electronic Service	Yes	OFF_SL_13-869_MR-13-869
Jerry	Dasinger	jerry.dasinger@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_13-869_MR-13-869
Jeffrey A.	Daugherty	jeffrey.daugherty@centerpointenergy.com	CenterPoint Energy	800 LaSalle Ave Minneapolis, MN 55402	Electronic Service	No	OFF_SL_13-869_MR-13-869

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
James	Denniston	james.r.denniston@xcelenergy.com	Xcel Energy Services, Inc.	414 Nicollet Mall, Fifth Floor Minneapolis, MN 55401	Electronic Service	Yes	OFF_SL_13-869_MR-13-869
Ian	Dobson	ian.dobson@ag.state.mn.us	Office of the Attorney General-RUD	Antitrust and Utilities Division 445 Minnesota Street, 1400 BRM Tower St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_13-869_MR-13-869
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_13-869_MR-13-869
Benjamin	Gerber	bgerber@mnchamber.com	Minnesota Chamber of Commerce	400 Robert Street North Suite 1500 St. Paul, Minnesota 55101	Electronic Service	Yes	OFF_SL_13-869_MR-13-869
Lloyd	Grooms	lgrooms@winthrop.com	Winthrop and Weinstine	Suite 3500 225 South Sixth Street Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_13-869_MR-13-869
Burl W.	Haar	burl.haar@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_13-869_MR-13-869
Robert	Harding	robert.harding@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_13-869_MR-13-869
Alan	Jenkins	aj@jenkinsatlaw.com	Jenkins at Law	2265 Roswell Road Suite 100 Marietta, GA 30062	Electronic Service	No	OFF_SL_13-869_MR-13-869
Linda	Jensen	linda.s.jensen@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota Street St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_13-869_MR-13-869

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Richard	Johnson	Rick.Johnson@lawmoss.com	Moss & Barnett	90 South 7th Street Suite #4800 Minneapolis, MN 554024129	Electronic Service	Yes	OFF_SL_13-869_MR-13-869
Clark	Kaml	clark.kaml@state.mn.us	Public Utilities Commission	121 E 7th Place, Suite 350 Saint Paul, MN 55101	Electronic Service	Yes	OFF_SL_13-869_MR-13-869
Mark J.	Kaufman	mkaufman@ibewlocal949.org	IBEW Local Union 949	12908 Nicollet Avenue South Burnsville, MN 55337	Electronic Service	No	OFF_SL_13-869_MR-13-869
Thomas G.	Koehler	N/A	Local Union #160, IBEW	2909 Anthony Ln Minneapolis, MN 55418-3238	Paper Service	No	OFF_SL_13-869_MR-13-869
Michael	Krikava	mkrikava@briggs.com	Briggs And Morgan, P.A.	2200 IDS Center 80 S 8th St Minneapolis, MN 55402	Electronic Service	No	OFF_SL_13-869_MR-13-869
Douglas	Larson	dlarson@dakotaelectric.com	Dakota Electric Association	4300 220th St W Farmington, MN 55024	Electronic Service	No	OFF_SL_13-869_MR-13-869
John	Lindell	agorud.ecf@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_13-869_MR-13-869
Susan	Mackenzie	susan.mackenzie@state.mn.us	Public Utilities Commission	Suite 350121 7th Place East St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_13-869_MR-13-869
Pam	Marshall	pam@energycents.org	Energy CENTS Coalition	823 7th St E St. Paul, MN 55106	Electronic Service	No	OFF_SL_13-869_MR-13-869
Mary	Martinka	mary.a.martinka@xcelenergy.com	Xcel Energy Inc	414 Nicollet Mall 7th Floor Minneapolis, MN 55401	Electronic Service	Yes	OFF_SL_13-869_MR-13-869

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Brian	Meloy	brian.meloy@leonard.com	Leonard, Street & Deinard	150 S 5th St Ste 2300 Minneapolis, MN 55402	Electronic Service	Yes	OFF_SL_13-869_MR-13-869
Andrew	Moratzka	apmoratzka@stoel.com	Stoel Rives LLP	33 South Sixth Street Suite 4200 Minneapolis, MN 55402	Electronic Service	Yes	OFF_SL_13-869_MR-13-869
Dorothy	Morrissey	dorothy.morrissey@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_13-869_MR-13-869
David W.	Niles	david.niles@avantenergy.com	Minnesota Municipal Power Agency	Suite 300 200 South Sixth Street Minneapolis, MN 55402	Electronic Service	No	OFF_SL_13-869_MR-13-869
Joseph V.	Plumbo		Local Union 23, I.B.E.W.	932 Payne Avenue St. Paul, MN 55130	Paper Service	No	OFF_SL_13-869_MR-13-869
Kevin	Reuther	kreuther@mncenter.org	MN Center for Environmental Advocacy	26 E Exchange St, Ste 206 St. Paul, MN 551011667	Electronic Service	Yes	OFF_SL_13-869_MR-13-869
Richard	Savelkoul	rsavelkoul@martinsquires.com	Martin & Squires, P.A.	332 Minnesota Street Ste W2750 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_13-869_MR-13-869
Janet	Shaddix Elling	jshaddix@janetshaddix.com	Shaddix And Associates	Ste 122 9100 W Bloomington Frwy Bloomington, MN 55431	Electronic Service	Yes	OFF_SL_13-869_MR-13-869
Christopher	Shaw	christopher.shaw@ag.state.mn.us	Office of the Attorney General-RUD	Bremer Tower, Suite 1400 445 Minnesota Street St. Paul, MN 55101-2131	Electronic Service	Yes	OFF_SL_13-869_MR-13-869
Ken	Smith	ken.smith@districtenergy.com	District Energy St. Paul Inc.	76 W Kellogg Blvd St. Paul, MN 55102	Electronic Service	No	OFF_SL_13-869_MR-13-869

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Ron	Spangler, Jr.	rlspangler@otpc.com	Otter Tail Power Company	215 So. Cascade St. PO Box 496 Fergus Falls, MN 565380496	Electronic Service	No	OFF_SL_13-869_MR-13-869
Byron E.	Starns	byron.starns@leonard.com	Leonard Street and Deinard	150 South 5th Street Suite 2300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_13-869_MR-13-869
James M.	Strommen	jstrommen@kennedy-graven.com	Kennedy & Graven, Chartered	470 U.S. Bank Plaza 200 South Sixth Street Minneapolis, MN 55402	Electronic Service	No	OFF_SL_13-869_MR-13-869
Eric	Swanson	eswanson@winthrop.com	Winthrop Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_13-869_MR-13-869
SaGonna	Thompson	Regulatory.Records@xcelenergy.com	Xcel Energy	414 Nicollet Mall FL 7 Minneapolis, MN 554011993	Electronic Service	Yes	OFF_SL_13-869_MR-13-869
Kari L	Valley	kari.l.valley@xcelenergy.com	Xcel Energy Service Inc.	414 Nicollet Mall FL 5 Minneapolis, MN 55401	Electronic Service	Yes	OFF_SL_13-869_MR-13-869
Lisa	Veith	lisa.veith@ci.stpaul.mn.us	City of St. Paul	400 City Hall and Courthouse 15 West Kellogg Blvd. St. Paul, MN 55102	Electronic Service	No	OFF_SL_13-869_MR-13-869