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September 28, 2007

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

**RE: Comments of the Minnesota Department of Commerce In the Matter of the  
Commission's Investigation into the Appropriateness of Continuing to Permit Electric  
Cost Adjustments**  
Docket No. E999/CI-03-802

Dear Dr. Haar:

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

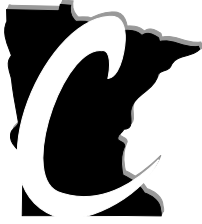
The August 16, 2007 Notice issued by the Minnesota Public Utilities Commission (Commission) soliciting further comments to update the record and to clarify which issues remain relevant to this investigation.

The Department offers the following comments on this issue. The Department intends to review further comments filed by other parties and provide additional comments regarding the electric cost adjustments. The Department is available to answer any questions the Commission may have.

Sincerely,

/s/ KATE O'CONNELL  
Supervisor, Electric Planning and Advocacy

KO/ja  
Attachment



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BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE  
MINNESOTA DEPARTMENT OF COMMERCE

DOCKET NO. E999/CI-03-802

**I. BACKGROUND**

The Department notes that this docket spans a number of years. The Department incorporates by reference in these comments our earlier comments filed in this matter on April 5, 2004, the addendum filed April 16, 2004, comments filed April 30, 2007, and reply comments filed May 15, 2007. These comments provide helpful background information regarding the usefulness of fuel clause adjustments (FCAs) along with alternative structures for FCAs.

The Department provides these brief comments to highlight the issues that we consider to be of significance in considering the structure of FCAs. These goals are the foundation for the comments provided to date by the Department, and the Department will consider these goals in assessing any proposals by parties in this proceeding.

In addition, the Department attaches a letter pertaining to the Commission's authority over FCAs. This letter was provided by utilities as a result of lengthy and productive discussions among parties in this proceeding.

**II. DEPARTMENT COMMENTS**

The Department notes that the comments incorporated above share the general goals listed below. The Department intends to consider these goals as we review comments provided by parties in this matter.

FCA ratemaking processes should:

- give customers clear information about energy costs;
- give customers timely information about energy costs, to allow customers to take action where possible to respond to expected increases in energy costs;
- hold utilities accountable for the energy costs they charge;
- where feasible and reasonable, provide more certainty about energy prices;
- ensure that FCA rate structures do not give utilities inappropriate incentives such as minimizing maintenance costs built into base rates and increasing replacement energy costs which flow through the FCA; and
- use limited resources available to assess FCAs in a reasonable manner.

### **III. RECOMMENDATIONS**

The Department intends to provide further comments and recommendations after reviewing the comments submitted by utilities and parties in this proceeding.

/ja



414 Nicollet Mall  
Minneapolis, Minnesota 55401

September 24, 2007

Ms. Kate O'Connell  
Manager, Electric Planning and Advocacy  
Minnesota Department of Commerce  
85 Seventh Place East  
St. Paul, MN 55101-2198

RE: FOLLOW-UP TO JULY 9, 2007 MEETING  
ELECTRIC FUEL CLAUSE ADJUSTMENTS

Dear Ms. O'Connell:

Thank you for the time your staff and you took to host the July 9, 2007 meeting regarding the Department of Commerce's concerns regarding electric fuel clause adjustments. I believe the meeting provided further clarity regarding these concerns; with this letter, each of the Minnesota investor-owned utilities ("the Utilities") reaffirm their commitment to work to address those concerns.

You offered the Utilities the opportunity to clarify their understanding of the Minnesota Public Utilities Commission's authority over fuel clause adjustments and its ability to require refunds (if found warranted by the Commission) after review of the Utilities' Annual Automatic Adjustment reports. From our perspective, Minn. Rules pt. 7825.2920 clearly makes automatic adjustments of charges provisional. That rule states:

Subpart 1. Automatic adjustment of charges filed under parts 7829.2900 [by electric utilities] are provisionally approved and may be placed into effect without commission approval....

Then Minn. Rule pt. 7825.2390 also provides in part:

Proposed energy cost adjustments must be submitted to the Department of Commerce. Annual evaluations of energy cost adjustments are made

by the Department of Commerce and others as provided for in parts 7825.2390 to 7825.2920.

In its December 2006 Order in the MISO Day 2 cost recovery dockets,<sup>1</sup> the Commission described the relationship of the monthly FCA filings and the Annual Automatic Adjustment of Charges (“AAA”) reports filed each September 1<sup>st</sup>:

Whereas a utility cannot change its “base rates” without undergoing a general rate case addressing all of the utility’s costs and revenues, the FCA permits monthly adjustments to a utility’s rates to reflect changes in the utility’s energy-related costs. These adjustments take effect without prior Commission review, but are subject to retroactive revision upon further investigation, and are reviewed in the utility’s annual automatic adjustment filings (AAA).

Order at p. 4.

This interpretation is consistent with the Utilities’ understanding of the FCA. This interpretation is also consistent with the Commission’s application of the similar rules applicable to purchase gas adjustment (“PGA”) filings for natural gas distribution utility operations. New PGA rates are filed each month, and then the PGA filings and company costs (and associated revenues such as capacity release revenues) are subject to comprehensive Department and Commission review (and potential revision) in the AAA/PGA true-up proceeding under Minn. Rule pt. 7825.2500 *et seq.*

Similarly, an electric utility is entitled to file adjustments to its charges for electric service on a monthly basis in order to cover changes in certain fuel and energy-related costs, as is provided in Minn. Rule pt. 7825.2600, but that these adjustments remain provisional until both the adjustments and the justifications for those adjustments are reviewed and commented upon by the Department and other interested parties as part of the AAA review proceeding conducted annually under Minn. Rule pt. 7825.2920 and the Commission has either approved, rejected or modified the adjustments at the conclusion of the AAA review proceeding.

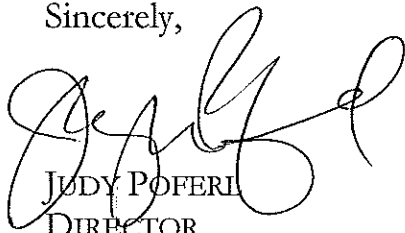
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<sup>1</sup> In the Matter of Xcel Energy's Petition for Affirmation that MISO Day 2 Costs are Recoverable Under the Fuel Clause Rules and Associated Variances, ORDER ESTABLISHING ACCOUNTING TREATMENT FOR MISO DAY 2 COSTS, Docket No. E002/M-04-1970 *et al.* (December 20, 2006).

I hope this letter clarifies the Utilities' perspective on this matter. Again, we are interested in continuing the dialogue regarding the fuel clause and will work to address your concerns. Xcel Energy is authorized to state that each of the Utilities listed below concurs with the statements provided in this letter.

Please feel free to contact me at (612) 330-6125 with any questions.

Sincerely,



JUDY POFERI  
DIRECTOR  
GOVERNMENT AND REGULATORY AFFAIRS

ON BEHALF OF NORTHERN STATES POWER COMPANY D/B/A XCEL ENERGY,  
MINNESOTA POWER, OTTER TAIL POWER  
AND INTERSTATE POWER & LIGHT COMPANY

cc: Christopher D. Anderson  
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**E999/CI-03-802**

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