

February 7, 2018

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: Response Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) to Electric Utilities' Reply Comments
Docket No. E999/AA-16-523

Dear Mr. Wolf:

Attached please find the Department's Response Comments to the electric utilities' reply comments in the matter of the 2015-2016 Annual Automatic Adjustment Report. The Department requests that the Minnesota Public Utilities Commission (Commission) receive these response comments, which are intended to help complete the record in this matter. Specifically, the Department responds to the reply comments of the following parties:

- Minnesota Power, reply comments filed on October 5, 2017;
- Xcel Electric reply comments filed on October 9, 2017; and
- Otter Tail Power Company, reply comments filed on October 9, 2017

Based on the review of each of the above-listed reply comments, the Department's attached response comments contain revised recommendations to the original recommendations included in the Department's *Review of the 2015-2016 (FYE16) Annual Automatic Adjustment Reports for Electric Utilities* filed on September 13, 2017.

The Department recommends that the Commission adopt the Department's revised recommendations, as discussed in greater detail herein and summarized at the end of this document. The Department is available to answer any questions that the Commission may have.

Sincerely,

/s/ MARK A. JOHNSON
Public Utilities Analyst Coordinator

MAJ/ja
Attachments

TABLE OF CONTENTS

Section	Page
I. BACKGROUND.....	1
II. DEPARTMENT ANALYSIS – FILING REQUIRMENTS (MP AUDITORS EXCEPTIONS).....	1
A. Background	1
B. Department Analysis.....	2
III. DEPARTMENT ANALYSIS – TOTAL FUEL COST REVIEW (XCEL ELECTRIC).....	2
A. Background	2
B. Department Analysis.....	2
IV. DEPARTMENT ANALYSIS – FCA REFORM (INDUSTRY STANDARDS)	3
V. DEPARTMENT ANALYSIS - ANCILLARY SERVICES MARKET (NEW RAMPING CHARGES).....	3
A. Background	3
B. Department Analysis.....	4
VI. SUMMARY OF RECOMMENDATIONS	4



Before the Minnesota Public Utilities Commission

Response Comments of the Minnesota Department of Commerce Division of Energy Resources Docket No. E999/AA-16-523

I. BACKGROUND

On September 13, 2017, the Minnesota Department of Commerce, Division of Energy Resources (the Department) filed its *Review of the 2015-2016 (FYE16) Annual Automatic Adjustment Reports* (Report) with the Minnesota Public Utilities Commission (Commission) in the present docket.

The following electric utilities filed reply comments:

- Minnesota Power (Minnesota Power or MP);
- Otter Tail Power Company (Otter Tail or OTP); and
- Northern States Power Company d/b/a Xcel Energy, Incorporated – Electric Utility (Xcel Electric).

Based on the review of each of the above-referenced reply comments, the Department's Response Comments contain revised recommendations to the original recommendations included in the Department's Report.

The Department recommends that the Commission adopt the Department's revised recommendations, as discussed in greater detail herein and listed at the end of this document.

II. DEPARTMENT ANALYSIS – FILING REQUIREMENTS (MP'S AUDITOR EXCEPTIONS)

A. BACKGROUND

According to MP's FYE16 report, MP's auditors noted two exceptions where the difference between the "average monthly cost of fuel consumed per ton" and the "average monthly cost of fuel purchased per ton" was greater than 5 percent. MP's auditors stated that "[MP's] management explained that this variance is primarily due to the new transportation contract prices with BNSF being higher under the new terms [after January 1, 2016] as compared to the previous contract."

In its September 13, 2017 Report, the Department recommended that MP provide a narrative in reply comments explaining and discussing this issue with enough detail to allow the Commission to make a determination regarding the reasonableness of the corresponding energy costs that were charged to MP's ratepayers.

B. DEPARTMENT ANALYSIS

In the Company's October 5, 2017 reply comments at 5, MP stated that it "would agree that the cost of fuel consumed should be equal or relatively close to the cost of fuel purchased if the Company had no beginning fuel inventory, no inventory adjustments due to the results of physical inventory and all fuel was received at the beginning of the month prior to consumptions. However, that is not the case in actuality."

MP identified the noted exceptions and provided supporting data showing that the cost of fuel consumed falls between the beginning average cost and the cost of purchases during the month for each of these exceptions. Based on our review, the Department concludes that MP's explanation regarding the average cost of fuel differences identified by its auditor appears reasonable. As a result, the Department concludes that this issue is resolved.

III. DEPARTMENT ANALYSIS – TOTAL FUEL COST REVIEW (XCEL ELECTRIC)

A. BACKGROUND

As discussed in the Department's Report at 25-26, the Department's review of Xcel Electric's FYE16 monthly fuel cost adjustment (FCA) filings identified data discrepancy issues that needed to be addressed. The Department recommended that Xcel Electric provide in reply comments a discussion of the measures it has taken to alleviate the reoccurrence of incorrect data entry and failure to identify and justify material adjustments. The Department also recommended that Xcel Electric file the correct Attachment 1, page 2, in the relevant monthly FCA dockets (16-274, 16-372 and 16-492) with a narrative explaining the correction made.

B. DEPARTMENT ANALYSIS

Xcel Electric's October 9, 2017 reply comments at 1-2 stated:

The Company appreciates the time and effort that the Department has dedicated to verifying our monthly fuel clause computation and apologizes for data issues that made review more difficult. As requested by the Department, the Company agrees to file corrected attachments in the relevant monthly FCA dockets with narrative explaining the corrections.

To alleviate future issues, the Company has added an additional reviewer to the monthly FCA process, and commits to providing narrative in the monthly FCA cover letter that would identify any new adjustments or changes to data formats. In addition, the Company is willing to work with the Department on streamlining the FCA report to ease review.

The Department concludes that Xcel Electric has taken measures to alleviate the reoccurrence of incorrect data entry and the failure to identify and justify material adjustments. As a result, the Department concludes that this issue is resolved at this time. The Department will continue to monitor this issue in future AAA filings.

IV. DEPARTMENT ANALYSIS – FCA REFORM (INDUSTRY STANDARDS)

In its Report at 35, the Department suggested two possible industry standards for the Commission to consider putting in place, if the FCA regulations continue to operate as they currently do, namely:

- Hold utilities at least partially if not fully responsible for incremental costs of replacement power due to forced outages caused by improper work by contractors, and
- Hold utilities financially responsible for replacement power costs due to any failure to remove all foreign material from generation facility work areas.

October 19, 2017, the Commission met to consider proposed changes to the current FCA regulations proposed by the Department in Docket No E999/CI-03-802.

On December 19, 2017, the Commission issued its *Order Approving New Annual Fuel Clause Adjustment Requirements and Setting Filing Requirements* (Order) in Docket No. E999/CI-03-802. The Commission's Order approved the Department proposed FCA reforms. Since the Commission approved the Department's proposed FCA reforms in Docket No. E999/CI-03-802, the Department withdraws its previous recommendation regarding two possible industry standards for FCA reform in this proceeding. The Department intends to further address FCA reform issues in Docket No. E999/CI-03-802.

V. DEPARTMENT ANALYSIS – ANCILLARY SERVICES MARKET (NEW RAMPING CHARGES)

A. BACKGROUND

As explained on pages 54-55 of the Department's Report, the Midcontinent Independent System Operator (MISO) implemented a new Ramp Capability Product in May 2016, and with it, two new charge types: Day-Ahead Ramp Capability Amount and Real-Time Ramp Capability Amount.

The Department stated that the two new charges, the Day-Ahead and Real-Time Ramp Capability Amounts, are the charge types through which MISO market participants that provide ramp capabilities are compensated. The cost of providing ramp capabilities is allocated across all load and exports in the MISO energy market and billed via the Real-Time Revenue Neutrality Uplift Amount, an existing MISO Day 2 charge type that is already included in the fuel clause.

Because the Ramp Capability Product relates directly to operating reserves and energy pricing, is similar to ancillary service, and its cost is recovered through the Revenue Neutrality Uplift charge, which is already recovered through the FCA, the Department concluded in our Report that it was reasonable for utilities to include the Day-Ahead and Real-Time Ramp Capability Amounts in their FCAs. Moreover, the Department stated that if the two new charge types were not included in the FCA, ratepayers would have to pay for the costs of ramp capabilities (via the Real-Time Revenue Neutrality Uplift Amount) without receiving any of the offsetting revenues.

The Department noted that MP included the two new charge types, Day-Ahead and Real-Time Ramp Capability Amounts, in its FCA beginning with the implementation of the ramp capability product on May 1, 2016. As a result, the Department requested that Xcel Electric and OTP explain in reply comments whether they included Day-Ahead and Real-Time Ramp Capability Amounts in their FCAs.

B. DEPARTMENT ANALYSIS

Beginning on page 3 of its October 9, 2017 reply comments, Xcel stated that it initially included its Day-Ahead and Real Time Ramp Capability Amounts in their FCAs by combining them with their Ancillary Services Market (ASM) Real-Time Net Regulation Adjustment Amount charge type in their MISO ASM report schedules. In addition, Xcel Electric stated that, beginning in August 2016, the Day-Ahead and Real-Time Ramp Capability Amounts were combined with the ASM Day-Ahead Regulation Amount and the Real-Time Regulation Amount charge types, respectively.

Beginning on page 2 of its October 9, 2017 reply comments, Otter Tail stated that it included its Day-Ahead and Real-Time Ramp Capability Amounts in its FCA. According to Otter Tail, these amounts can be found in Part E, Section 10, Attachment I-1, lines 47 and 48 and in Part H Section 3, Attachment K, pages 21, 22, 25, and 26 of its initial filing.

The Department agrees with Xcel Electric's and Otter Tail's inclusion of Day-Ahead and Real-Time Ramp Capability Amounts in their FCAs. However, for clarification purposes, the Department recommends that Xcel Electric report these new charge types as separate line items rather than combining them with other MISO ASM charge types in future AAA filings.

VI. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

- The Department concludes that MP's explanation regarding the two average cost of fuel differences identified by its auditor appears reasonable. As a result, the Department concludes that this issue is resolved at this time. The Department will continue to monitor this issue in future AAA filings.

- The Department concludes that Xcel Electric has taken measures to alleviate the reoccurrence of incorrect data entry and the failure to identify and justify material adjustments. As a result, the Department concludes that this issue appears to be resolved. The Department will continue to monitor this issue in future AAA filings.
- Since the Commission approved FCA reforms in Docket No. E999/CI-03-802, the Department withdraws its previous recommendation regarding two possible industry standards for FCA reform in this proceeding. The Department intends to further address FCA reform issues in Docket No. E999/CI-03-802.
- The Department agrees with Xcel Electric's and Otter Tail's inclusion of Day-Ahead and Real-Time Ramp Capability Amounts in their FCAs. However, for clarification purposes, the Department recommends that Xcel Electric report these new charge types as separate line items rather than combining

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CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, 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.

**Minnesota Department of Commerce
Response Comments**

Docket No. E999/AA-16-523

Dated this 7th day of February 2018

/s/Sharon Ferguson

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