

December 10, 2013

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

RE: Follow-up of the Minnesota Department of Commerce, Division of Energy Resources,
Docket No. E002/MR-13-869

Dear Dr. Haar:

This letter is a brief follow-up to the December 4, 2013 comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) regarding the request by Northern States Power d/b/a Xcel Energy (Xcel or the Company) to set a new Base Cost of Energy in conjunction with the Company's general rate case in Docket No. E002/GR-13-868.

The Department's comments recommended that the Minnesota Public Utilities Commission (Commission) retain Xcel's current base cost of energy, at \$2.729/MWh, rather than increasing the rate to \$2.78/MWh. As explained further in those comments, the Department's recommendation is based on the conclusions that: 1) Xcel did not adequately justify either the costs they propose to recover or the sales over which to spread those costs and 2) other data recently filed by Xcel suggested that the rate should remain at the current level.

The procedural difficulty with making any change to the proposed base cost of energy at the beginning of a rate case is that there are several other factors in rate cases that are tied to the base cost of energy (e.g. lead/lag factor). Thus, changing the rate for the base cost of energy at the beginning of the case would make the base cost of energy inconsistent with the factors used in setting interim rates. Further, even though the issues that the Department raised are important to resolve, the final resolutions of these questions will not be known until the end of the rate case, after issues such as the sales forecast and various costs are investigated and the Commission makes its determinations.

While it would be possible to require Xcel to re-file numerous schedules for its rate case and interim rates at this point, 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, especially since discovery has already started on the case originally filed by Xcel. 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 recommends that the Commission approve Xcel's proposed base cost of fuel, subject to refund. Because the fuel clause adjustment (FCA) will continue to operate throughout the rate case, any overcharge of the fuel portion of the base rate will be returned to ratepayers through the monthly FCA rate

changes. However, any overcharges in the factors that are connected to the base cost of energy in base rates would be appropriately returned to ratepayers through the interim-rate refund.

The Department is not aware of any need to vary the Commission's rules on automatic adjustments to adopt this recommendation. Minnesota Rule 7825.2400, subp. 4 defines the base electric cost as "the cost of fuel consumed in the generation of electricity and the cost of purchased power in the base period expressed as a cost per kilowatt-hour sold." There is no requirement in the automatic adjustment rules that the base cost of energy must be set at the beginning of rate cases. However, because the base cost of electricity is a portion of the interim rates (which are set at the beginning of rate cases), the practice has been to approve a new base cost of energy at the beginning of rate cases. Since the Department's recommendation above is essentially to treat the base cost of electricity as if it were an interim rate, this approach is consistent with the principles behind interim rates.

As indicated in the Department's December 4 comments in this proceeding, the Department fully intends to investigate the questions raised in our comments in Xcel's rate case. Xcel has indicated its willingness to answer the Department's questions.

The Department is available to answer any questions the Commission may have.

Sincerely,

/s/ SACHIN SHAH
Rates Analyst

SS/lt

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
Letter**

Docket No. E002/MR-13-869

Dated this 10th day of **December, 2013**

/s/Sharon Ferguson

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