

MINNESOTA
CHAMBER of
COMMERCE

10/30/2007

VIA E-FILING

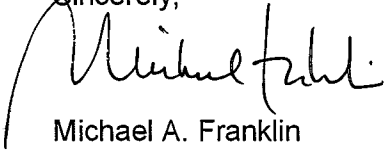
Dr. Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
350 Metro Square Building
121 7th Place East
St. Paul, MN 55101-2147

Re: COMMENTS REGARDING MPUC DOCKET NO. E999/CI-03-802
SHOULD THE FCA BE MODIFIED, LEFT AS IS, OR ELIMINATED?

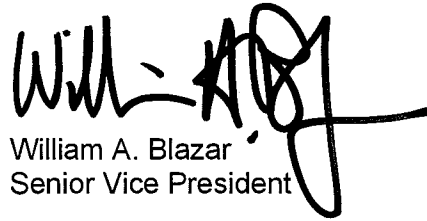
Dear Dr. Haar:

Enclosed for filing please find reply comments from the Minnesota Chamber of Commerce in the above-referenced Docket.

Sincerely,



Michael A. Franklin
Director, Energy Policy



William A. Blazar
Senior Vice President

C: Service List

A. Introduction & Background

The Minnesota Chamber has been very active in electric FCA issues as evidenced by the Chamber's participation as a stakeholder in the MPUC consolidated MISO Day 2 Cost Docket and as an expert witness in the recent Xcel Energy electric rate case (MPUC Docket No. E-002/GR-05-1428). The Chamber's FCA settlement proposal for reporting FCA strategy and other FCA aspects in the Xcel Energy rate case docket were not only accepted but were also used as a blueprint for a 4-company settlement in the MISO docket.

As stated in our July 19, 2007 comments, the Chamber believes that FCA's are well within utility management control, and because of the large increases in the FCA's, and increases in the volatility, it is more important than ever to ensure that the automatic flow-through of this immense (nearly 50% of an Xcel customer's bill, for example) and increasing cost to customers.

Customers have significant concern as to whether the proper incentives exist for utilities to manage their FCA's as one of their key management responsibilities, and (increasingly) whether regulatory oversight alone is enough to solve the problem. The very *nature* of the FCA requires some risk, and we understand the value of assumptions that we are made in an attempt *not* to "manage to a number" which might therefore solve the volatility problem but do so at the expense of higher costs.

B. Minnesota Chamber Comments

Customers see the value of sharing in a risk/reward scenario, but that also means additional information is needed so that harmful trends can be avoided.

We do not believe that significant changes to FCA management can be accomplished overnight. Customers, even less so than regulators, are currently ill-equipped to effectively evaluate management decisions in hindsight and without benefit of all the information that the utility has at its disposal. In fact, we believe effectively evaluating past performance is only half of the equation.

Minnesota Power recognizes these facts on page three of its September 28 comments, by listing several key questions, the answers to which would materially benefit customers and regulators and increase understanding of the inputs that constitute the FCA. Several key terms in MP's summary include "measurable performance targets," "timely, useful energy pricing information," and "accountability."

This analysis begins to get at the key interests of customers. If customers have timely, useful energy information (i.e., public FCA forecasts that can be counted on with some degree of confidence), they could plan production schedules around forecasted high-cost energy periods. If there were more accountability for these forecasts, customers would likely rely on them with a higher degree of confidence. If the utility had measurable performance targets, there would likely be more accountability for the FCA forecasts.

C. Utilities' September 28, 2007 Comments

We understand that real-world challenges complicate forecasts, and what seemed reasonable to assume in October 2007 may not, in hindsight, look as prudent twelve months later. But, with a maximum of customer review and input at the front-end, as proposed by Minnesota Power, some of the understanding described above could begin. Xcel Energy has already adopted the ex post review part of this process as well, as a result of a settlement (with the Minnesota Chamber of Commerce, among others) in its 2006 rate case. In its comments, Xcel addresses the value of a before-the-fact review to complement the other process.

Similarly, a public preview of the annual report could be posted on utilities' websites for review by those customers that may not have the time or interest in attending private meetings which may require some trade-secret protection. Therefore, MP's suggestion to do just that is well-taken and should be adopted by other utilities.

We therefore support the concept of the annual forecast preview as proposed by Minnesota Power. We also support the concept of a less formal process, as proposed by Xcel, to ensure that the discussion can take place at a minimum of cost and time commitment for customers. Increasing the opportunities for *any* customer to access a reliable fuel forecast via the utilities' website is a critical goal, and we encourage utilities to proceed to that end within the next year.

D. Conclusions

Effective forecasting may turn out to be helpful, but may also be only *one* item that would materially benefit customers. We note the utilities' resistance to adopting incentive mechanisms, at least without thorough review and increased understanding of the FCA inputs, and weighing the effectiveness of the current review process. We agree.

To us, however, ensuring proper management of FCA's by the utility might mean giving utilities appropriate incentives to optimize maintenance of existing resources, plan for outages, hedge fuel purchases, and respond to external factors (e.g, weather, unplanned outages) *without* a guarantee that customers will foot the bill under any circumstance.

We are willing to assist the Department of Commerce and utilities in finding a solution to the problem described above – managing high fuel costs and the significant volatility of the FCA to the customers' benefit. We are not ready to suggest a complete solution, but agree that increasing information, understanding and opportunities to comment on the front *and* back end of the annual process is a good start, and should happen as soon as possible.

In the Matter of an Investigation into the
Appropriateness of Continuing to Permit
Electric Energy Cost Adjustments
Docket No. E999/CI-03-802

(3-26-04)

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