



414 Nicollet Mall
Minneapolis, MN 55401

April 30, 2018

—Via Electronic Filing—

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

RE: COMPLIANCE FILING
INVESTIGATION INTO ELECTRIC ENERGY COST ADJUSTMENTS
DOCKET NO. E999/CI-03-802

Dear Mr. Wolf:

Northern States Power Company, doing business as Xcel Energy, submits the enclosed filing in compliance with the Commission's December 19, 2017 ORDER APPROVING NEW ANNUAL FUEL CLAUSE ADJUSTMENT REQUIREMENTS AND SETTING FILING REQUIREMENTS and the Commission's February 27, 2018 ORDER DENYING PETITIONS FOR RECONSIDERATION in the above-referenced docket.

Pursuant to Minn. Stat. § 216.17, subd. 3, we have electronically filed this document, and served copies on the parties on the attached service list.

If you have any questions regarding this filing, please contact me at (612) 330-6260 or allen.krug@xcelenergy.com or Rebecca Eilers at rebecca.d.eilers@xcelenergy.com or (612) 330-5570.

Sincerely,

/s/

ALLEN KRUG
ASSOCIATE VICE PRESIDENT, STATE REGULATORY POLICY

Enclosures
c: Service List

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

Nancy Lange	Chair
Dan Lipschultz	Commissioner
Matthew Schuerger	Commissioner
Katie J. Sieben	Commissioner
John A. Tuma	Commissioner

IN THE MATTER OF AN INVESTIGATION
INTO THE APPROPRIATENESS OF
CONTINUING TO PERMIT ELECTRIC
ENERGY COST ADJUSTMENTS

DOCKET NO. E999/CI-03-802

COMPLIANCE FILING

INTRODUCTION

Northern States Power Company, doing business as Xcel Energy, submits this filing in compliance with the Commission's December 19, 2017 ORDER APPROVING NEW ANNUAL FUEL CLAUSE ADJUSTMENT REQUIREMENTS AND SETTING FILING REQUIREMENTS and the Commission's February 27, 2018 ORDER DENYING PETITIONS FOR RECONSIDERATION in the above-noted docket. Ordering Point No. 4 of the December 19 Order requires utilities to file a compliance filing addressing implementation of the Commission's decision within 60 days of the Order. We are making this filing 60 days after the issuance of the February 27 Order which denied petitions for reconsideration of the December 19 Order.

The Company provides this compliance filing to satisfy the objectives set forth by the Commission. We are committed to working with stakeholders to establish a fuel clause process that protects and informs customers, reasonably mitigates risk for utilities, and delivers a more transparent and efficient review process. To that end, the Company has crafted a concrete implementation plan based on the concepts outlined in the Commission's December 19 Order, as well as some refinements proposed in this filing that we believe are consistent with the Commission's goals and direction.

The Company's plan has its foundation in the framework outlined by the Department and approved by the Commission. Our implementation plan creates incentives that more fully align utilities' and customers' interest while providing for effective review of fuel costs and maintaining current pricing signals for our customers. To achieve these aims, we propose a Wisconsin-style incentive mechanism that will balance

utility risk with reward and will consistently drive utilities to minimize FCA costs. We also propose to update certain components of our forecast on a month-to-month basis, so that our prices reflect market reality. Lastly, we propose to move the mechanism to a calendar year measurement.

We believe our implementation plan provides a balanced approach that paves the way for successful and lasting reform, and we welcome the opportunity to work with the Department and other stakeholders to address any additional compliance issues that might arise as we move through this process.

I. OBJECTIVES OF THE REFORM

The Commission's June 2, 2016 Order in this docket directed the Department to prepare a proposal for the recovery of energy costs delivered to customers, including possible reform of the fuel clause adjustment mechanism. The Department brought forward a conceptual framework for reform, that focused on several core principles, including:

- Providing customers clear and timely information about energy costs, to allow them to take action to respond to expected increases in energy costs;
- Providing utilities an opportunity to recover reasonable costs;
- Holding utilities accountable for the energy costs they charge;
- Ensuring that FCA rate structures provide appropriate incentives;
- Providing more certainty, where possible, about energy prices; and
- Creating a process that facilitates a more efficient, transparent and streamlined review.

The Commission ultimately adopted the Department's proposal, noting:

These changes will permit more effective prudence review of fuel costs, better protect consumers from potentially unreasonable rates, and increase clarity of anticipated fuel costs, enhancing a customer's ability to make meaningful choices about energy usage. And when necessary, an annual true-up mechanism will ensure that over- or under-recoveries are equitably addressed.

The Company understands this direction from the Commission and has proposed an implementation plan that is designed to address the primary objectives outlined by the Department. At the same time, we have also sought to address other key principles in our proposed plan, including: mitigating risks that are outside of the Company's control, limiting regulatory lag, preserving price signals, and ensuring

balanced incentives. We believe these core principles, taken together, will result in a fuel clause reform that will stand the test of time.

II. PROPOSAL IMPLEMENTATION

When determining how best to implement the framework set forth in the Commission’s December 19 Order, we first looked to our sister operating company in Wisconsin. We used our Wisconsin experience as a starting point but made adjustments to account for learnings from that process. In particular, we propose modifications to the Wisconsin process that permit the Company to maintain an accurate price signal to its customers. As discussed in greater detail below, we believe that accurate price signals are important for customer decision-making and are wholly consistent with Minnesota energy policy. We further believe that pricing accuracy cannot be maintained using a rigid mechanism that does not allow any price update if market conditions change materially during the year. Finally, we believe that monthly updates of certain price components will reduce volatility related to uncontrollable events that may cause recovery to get drastically out of line with actual costs.

In the balance of this filing, we outline an implementation plan starting with the annual forecast filing that will be used to set the base fuel forecast and continuing through the prudence review stage. We set forth an incentive proposal and describe the important role incentives can and should play in the overall reform. And, lastly, we propose an annual schedule.

A. Annual Forecast Filing

In its December 19 Order, the Commission described a process that would include an “annual fuel clause adjustment filing” to support the Company’s proposed fuel rates.¹ Accordingly, the first step in the Company’s implementation plan requires an annual fuel forecast filing. To ensure adequate time for review, we propose to make the annual filing approximately eight months in advance of implementation. As was discussed during the October 19, 2017 hearing, the timely review and processing of annual fuel clause adjustment filings will be critical to the success of the reform effort; and we believe eight months provides sufficient time for thorough review while mitigating the problem of stale data. That said, given that certain drivers of FCA costs—such as resource availability and sales—can change significantly over an eighth-month period, we propose that utilities have the opportunity to update these factors prior to Commission review of the annual forecast. As provided in Table 1 below, we propose to make this update filing on November 15 of each year. We

¹ Order Points 1 and 2.

believe this update process will ensure that we begin each FCA year with as much accuracy as possible while also facilitating a reasonable review period of our annual forecast.

With respect to the forecast itself, the Company intends to use the PLEXOS® production cost model to forecast the total system fuel and purchased power expense for the forecasted year. PLEXOS® uses modern mathematical programming and optimization techniques for power generation modeling and simulation. The unit commitment and economic dispatch logic of PLEXOS® commits and dispatches NSP System generation resources, contractual assets, and electric markets to balance system energy demand and meet reserve requirements, while enforcing all generating resource and operation constraints at the least system cost. The PLEXOS® simulation inputs include variables such as the NSP System load forecast, generating unit characteristics and operating parameters, committed purchases and sales, fuel commodity prices, electric market prices, and forecasted growth of mandated programs.

We also incorporate other fuel and purchased power costs that impact the monthly FCA rate, but that do not affect the dispatch of generating resources, into our forecast. These include costs such as gas pipeline reservation costs, gas storage costs, rail car lease costs, wind curtailment costs, and certain MISO charges.

The PLEXOS® model contains many inputs and settings. The model for the NSP system currently has over 150 generation resources modeled including owned generators and generators under PPAs. There are 10-20 input variables used to define the characteristics for each generator. In addition, there are fuel inputs defined for coal, natural gas, oil, RDF and wood fueled generators covering fuels under contract in addition to spot market fuels. Each fuel is defined by several input variables. Several PLEXOS® model inputs are defined with hourly values such as system load, electric market prices, and wind and solar patterns. With such detailed modeling the count of input values necessary to fully represent the NSP system quickly grows into the thousands. This is the same model we currently use and will ensure consistency with historical data and use in other jurisdictions.

With respect to process, the Company plans to proactively engage with the Department to facilitate an understanding of the forecasting methodology. To that end, the Company plans to offer an in-person meeting (or meetings) to ensure that the Department understands the complexity of the forecast model and the overall methodology. The annual forecast filing is a critical piece of the reform process and we are committed to facilitating review and understanding of that piece. Additionally,

our first annual forecast filing will address the transition from the current FCA process to the new FCA process, and we will detail how any necessary true-ups will be accomplished as we make this transition.

While the Company recognizes that the Commission's Order requires implementation by July 1, 2019, we ask that parties consider a slight modification to this Order point. As already discussed, the Company believes that the up-front review for this new process will be time consuming, particularly in its initial year as all parties get accustomed to the new process. Our experience in Wisconsin—where the process has remained intact for several years—indicates that approximately eight months are needed to complete the forecast review and approval process. With that in mind, the Company proposes to submit its initial filing in May of 2019, allowing sufficient time to complete a rigorous review of the annual forecast before implementation on January 1, 2020. Additionally, we believe this timeline will allow for sufficient time to work through the various compliance issues that need to be resolved prior to implementation. Finally, as discussed below, we believe there are efficiencies and benefits to be gained by moving to a process based on the calendar year as opposed to the July-to-June framework that has existed in the past. In short, we see this reform process as an opportunity to make this change and achieve some efficiencies while also providing some additional time to plan and execute the reforms.

To be clear, if the Commission does not agree to this short implementation delay, the Company can make its initial filing on November 1, 2018, providing eight months for regulatory review prior to implementation in July of 2019. However, given the discussions and Commission review we anticipate in order to finalize the reform process, we believe a July 2019 implementation date—in conjunction with an eight-month review process—may create significant time pressure. The Company intends to work diligently with stakeholders to ensure we develop a fair and transparent process, and we believe this can best be accomplished with a reasonable development period.

B. Limited Monthly Forecast Updates

The annual forecast that is approved by the Commission will establish the foundation of our forecasting methodology. The Company proposes that it provide limited input adjustments to the base forecast on a monthly basis. We further propose that the actuals be trued up against the monthly forecasts and then reconciled at the end of the 12-month period. In other words, if the Company under-recovered relative to its monthly forecasts for the first six months and then over-recovered relative to its

monthly forecast for the last six months—the monthly variances would be netted against each other at year’s end.

More specifically, the Company proposes to make monthly update filings prior to the start of each month in order to adjust that month’s established FCA rates to reflect changes to the following three factors:

- Gas prices
- Electric Market Prices
- MISO Costs such as Congestion and FTR Revenues

All other FCA inputs will remain unchanged from the Company’s annual forecast, unless updated pursuant to significant unforeseen circumstances, as permitted by the Commission’s December 19, 2017 Order. Accordingly, the monthly adjustment filings will be limited in scope and focused on costs that are readily verifiable and driven by market forces.

The Company believes that this is a significant improvement to the Wisconsin process and more consistent with Minnesota’s and this Commission’s policies to both encourage energy conservation and provide customers the tools they need to make informed energy consumption decisions. Further, the Company is undertaking several initiatives to provide customers with greater price and resource transparency, and we wish to avoid any regression. Gas prices, electric market prices and MISO costs and revenues represent the three most volatile elements of the fuel clause—all of which are driven by market forces and may vary widely both hourly and seasonally. Regular updates to these factors will go a long way toward providing accurate price signals to our customers and reducing (but not eliminating) the probability that recovery will vary significantly from actual costs. This is important for customers—particularly our large commercial customers—as they budget for future bills in order to avoid unnecessarily large surcharges. Additionally, the Company is interested in avoiding significant and unnecessary regulatory lag, particularly lag that is driven by circumstances that all parties have acknowledged are beyond the Company’s control.

The Company proposes to file monthly fuel forecast updates two business days before the start of the month, with rates effective the first day of the month. The first monthly fuel forecast will be on or before December 30, 2019, effective January 1, 2020. Once actual results are available, the Company will report a comparison of actual costs to forecasted costs in the monthly filings. For example, in the February 27, 2020 monthly report for March 1, 2020 pricing, the Company will report actual versus forecasted results for January 2020.

In compliance with Order Point 1b, we will update the monthly fuel rates on our Company web page at least one day prior to the monthly rate implementation—but we note again that the monthly filings would not true-up the rate for the prior month’s actuals as we do today. Rather, at the end of the forecasted month, the Company will compare actual costs to the updated forecasted costs and defer the difference for future recovery treatment.

Finally, there may be unusual circumstances where a significant unforeseen event impacts the Company’s monthly FCA costs in way that is not addressed by the monthly updates described above. In that scenario, and consistent with the process outlined above, the Company will update its monthly forecasts for the remainder of the annual period in question. Like interim rates, the updated rate following a significant unforeseen event would go into effect upon the Company’s filing but would remain subject to refund following Commission review of the filing.

C. Annual Reconciliation Filing

Two months after the forecast year ends, the Company will file an annual report detailing the monthly differences between forecasted and actual costs. In this filing, the Company will provide an explanation of the variance of total costs over or under the forecasted level.

To mitigate lag, we propose to implement the true-up at the time the true-up filing is made prior to full review and approval. The under- or over-recovered amount would be returned to or collected from customers in a one-month period as part of the monthly FCA rate in the month immediately following the reconciliation filing. This amount would be subject to refund—either from the Company to customers or vice versa—upon review and approval by the Commission.

The alternative to this timely implementation would mean a significant lag in effecting either a surcharge or refund. If implementation were delayed until a Commission decision on the reconciliation filing, the Company estimates that the earliest a true-up could be implemented would be six months after the conclusion of the test year. If the Commission required the true-up to take place as part of the next year’s forecast implementation, there would be a full year’s lag before the true-up could be returned or collected. We understand that the Commission will want to fully review the year’s final results, and this process will allow them the necessary time to do so without causing undue lag.

D. Need for Balanced Incentive

The Company has proposed a method that we believe is both workable and reflective of the Commission's direction in this proceeding. That said, we believe a more robust mechanism that addresses the factors motivating parties' recommendations and ultimately the Commission's policy direction is merited prior to implementing any reforms. This lengthy docket was motivated primarily by parties' concerns regarding the perceived lack of utility incentive to minimize fuel and purchased power costs for its customers. The Company responded with a mechanism designed to provide the Company with an incentive to minimize the costs related to power plant outages, which parties felt was not sufficiently broad to address the concerns raised here. It is not the Company's intent here to reargue issues surrounding incentives to minimize FCA costs or lack thereof. Rather, we provide this perspective to ensure that parties design a pilot with the best opportunity to address the shortcomings that they wish to address.

To that end, the Company believes that its proposal discussed above can be significantly improved by the inclusion of a true incentive mechanism. Specifically, we propose a mechanism whereby the Company shall be at risk for the recovery of 2% of total forecasted fuel costs (adjusted for monthly updates, as detailed above) subject to a maximum total under/over collection of \$15 million. For example, if the Company forecasted \$750 million in annual fuel costs, the Company would be at risk for costs up to \$765 million, and would be able to forego refunds for maintaining costs between \$735 million and the forecasted \$750 million. If actual costs are below \$735 million, the Company would refund the difference between \$735 million and actual costs. If actual costs are above \$765 million, the Company may request recovery. This is similar to the Wisconsin fuel rules process.

We believe a banded incentive mechanism of this kind will be more effective compared to simply putting utilities at risk relative to their annual forecasts. One of the stated goals of reform is to ensure that FCA rate structures do not give utilities inappropriate incentives; we believe that adding positive incentives only enhances the outcome. Indeed, while putting utilities at risk relative to a forecast incentivizes parity between forecasted and actual costs, a banded incentive mechanism actually encourages utilities to *minimize costs* on a consistent basis. In this way, we believe a banded incentive mechanism, paired with the process described above, will more effectively align the interest of utilities and their customers when it comes to fuel and related costs. In other words, our proposal would ensure that utilities have actual skin in the game and that they have both upside opportunity and downside risk. We believe this kind of balanced incentive will be most effective at driving prudent utility

behavior, and could minimize—if not eliminate—the administrative burden of investigating prudence retrospectively. Indeed, provided that a utility’s FCA costs stay within the 2 percent incentive band, parties and the Commission may want to consider whether any prudency review is necessary at all. We believe this is consistent with a holistic, system-wide approach to FCA accountability, which should also apply to prudency reviews that may be necessary if a utility’s FCA costs move outside the 2 percent band.

We recognize that further discussion and/or refinements of this proposal may be necessary prior to implementation. To that end, we propose to work with the Department, and other interested stakeholders to refine the proposed incentive mechanism as we continue to work through all of the implementation issues raised in this docket.

III. PROPOSED TIMING AND FILING DETAILS

As already discussed, we propose that the Company’s fuel clause forecast year move to a calendar year from the current July through June year. This will help align our business processes so that we are able to use the same annual system forecast process in both Minnesota and Wisconsin. A calendar year also better aligns with business functions such as budgeting and forecasting and matches the Company’s fiscal year.

Under the calendar year proposal, the new process will be implemented with the filing of the annual forecast for 2020 on May 1, 2019. We would propose Parties’ Comments to be due by October 1 and the Commission’s Order to be received by December 1, 2019. By November 15, 2019, we would submit our final updated forecast for the first month of implementation to allow Parties to review and verify that the final updates meet the ordered requirements. The new rates would be implemented on January 1, 2020. The final prudency review of the monthly updates would take place during the end-of-year audit/prudency review filed on March 1, 2021. The table below details our proposed timeline for the first annual process.

Table 1: FCA Process Year-One Timeline

Company files annual FCA Forecast for Jan-Dec 2020	May 1, 2019
Review of Annual Forecast	May – Sept. 2019
Discovery	
Discussion of Model with Parties	
Forecast update for fuel costs, gas prices, market prices, Planned Outages, Load	
Parties provide comments	Oct 1, 2019
Reply Comments	Oct. 20, 2019
Company provides updated forecast based on reviewed changes	Nov 15, 2019
Commission Order approving forecast and methodology	Dec. 1, 2019
Monthly Updates filed 2 days prior to beginning of Month, effective the first of the month	Prior to first of every month
Company files prudency review report, detailing differences between updated monthly forecast and actual and AAA requirements	March 1, 2021
One-time true-up surcharge/credit included on customer bills (incorporated in monthly FCA rate)	April 1, 2021
Prudency Review	April – June 2021
Commission Order	Late summer 2021
Any difference between implemented true-up and Commission- approved true-up incorporated as one-time surcharge/credit on customer bills (incorporated in monthly FCA rate)	included in the month after Commission Order issued

We recognize that current Minnesota Rules specify a July through June reporting annual reporting period. However, we believe a number of rule variances (or changes) will be required to effectuate the reforms contemplated by the Commission’s Order and this filing. Thus, we believe the transition to an FCA calendar year could be included among these changes as we proceed toward implementation.

A. AAA Reporting Timing During Transition

The switch to a calendar forecasting and reporting year will cause some disruption to the September 1 AAA Report deadline. If the timeline outlined in Table 1 is approved by the Commission, we propose to submit a AAA report for the 2017-2018 fiscal year as usual on September 1, 2018. We propose an extension to AAA reporting for the 2018-2019 fiscal year due on September 1, 2019. Instead, we would file an 18 month report on March 1, 2020 under the new plan schedule. The March 1, 2020 report would include July 2018-December 2019.

We make this proposal because producing and reviewing the forecast annual reports and AAA reports are labor intensive processes. We believe it will help ease into the

new reporting structure if we do not layer multiple laborious reports during the fall 2019 time period as we work to implement a new process. We believe this is the best time to introduce the new reporting timing, in order to stagger the filing and review of two large reports.

B. Quarterly Reporting

As a result of this new process, we propose to discontinue the quarterly fuel forecast filings, including the 24-month forecast filed in October, and the biannual customer meetings intended to discuss the forecast with stakeholders. In lieu of the quarterly forecast, customers who have previously signed the non-disclosure agreement could opt to receive the non-public version of the annual fuel forecast and participate in the annual review process. We believe this meets the spirit of the rate case settlement in which the quarterly forecast filing and associated customer meetings were established.²

IV. FUTURE COMPLIANCE ISSUES

In addition to the issues described above, we foresee a number of final compliance issues that will need to be resolved prior to implementation of the reformed process. These include a number of rule variances related to operation of the FCA, as well as updates to the Company's tariff sheets that govern the calculation and application of the fuel clause. In particular, the following tariff sections may require updates: Base Cost of Energy (Sheet No. 5-91), Current Period Cost of Energy (Sheet No. 5-91.1), and Energy Cost True-up Factors (Sheet No. 5-91.2).

Additionally, with the implementation of fuel clause reform, we also believe there is opportunity to update the AAA reporting requirements and format. We would envision the necessary elements of the current AAA report would be included in the year-end review. However, there are a number of reporting requirements that can likely be eliminated.

Upon final Commission approval of a reformed FCA process, we propose to make a final compliance filing addressing the various modifications and variances that we propose to effectuate those changes. We will also carefully review the format of the

² See Docket No. E002/GR-05-1428, Settlement Agreement, Advance Forecast for Fuel and Purchased Energy Costs (October 2, 2006) and Docket No. E002/GR-08-1065, Exhibit 45 (AEH-4), the Supplemental Pre-Filed Comments in Response to Surrebuttal Testimony and Settlement Discussions of Ms. Anne E. Heuer (June 3, 2009).

annual report in order to streamline reporting requirements following implementation.

CONCLUSION

We believe our FCA reform implementation plan provides a balanced approach that paves the way for successful and lasting reform. We look forward to working with the Department and other stakeholders through this process, and we propose to begin this cooperation immediately following this filing.

The Company respectfully requests approval of our proposed FCA reform implementation process, including the following key elements:

- filing and review of an annual fuel forecast which would establish most elements of the monthly fuel charge for 12 months on a calendar year schedule;
- monthly filings that would adjust three distinct forecasted factors that are most volatile and out of the Company's control;
- annual filings at the conclusion of the forecast year to evaluate over- or under-recovered costs that would incorporate required elements of the Annual Automatic Adjustment of Charges report (AAA); and
- a symmetrical, banded incentive mechanism.

Dated: April 30, 2018

Northern States Power Company