



414 Nicollet Mall  
Minneapolis, Minnesota 55401

April 30, 2007

Burl W. Haar  
Executive Secretary  
Minnesota Public Utilities Commission  
121 7<sup>th</sup> Place East, Suite 350  
St. Paul, MN 55101

RE: IN THE MATTER OF THE COMMISSION'S INVESTIGATION INTO THE  
APPROPRIATENESS OF CONTINUING TO PERMIT ELECTRIC ENERGY  
COST ADJUSTMENTS  
COMMENTS OF XCEL ENERGY INC.  
DOCKET NO. E999/CI-03-802

Dear Dr. Haar:

Enclosed please find for filing the Comments of Northern States Power Company ("Xcel Energy" or the "Company"), a Minnesota corporation and wholly owned subsidiary of Xcel Energy Inc. in response to the Commission's request for Comments in the above-referenced docket.

Copies of this filing have been served on the Department of Commerce and the Office of the Attorney General – Residential Utilities Division and a summary on all other parties on the attached service list. Please call me at (612)-330-2865 if you have any questions regarding this filing.

Sincerely,

NANCY A. HALEY  
REGULATORY ADMINISTRATION

Enclosures  
c: Service List

STATE OF MINNESOTA  
BEFORE THE  
MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendrayer	Chair
Marshall Johnson	Commissioner
Phyllis Reha	Commissioner
Thomas Pugh	Commissioner

IN THE MATTER OF THE COMMISSION'S  
INVESTIGATION INTO THE  
APPROPRIATENESS OF CONTINUING TO  
PERMIT ELECTRIC ENERGY COST  
ADJUSTMENTS

DOCKET NO. E999/CI-03-802

**COMMENTS OF XCEL ENERGY**

**INTRODUCTION**

Northern States Power Company ("Xcel Energy" or the "Company"), a Minnesota corporation and wholly owned subsidiary of Xcel Energy Inc., submits to the Minnesota Public Utilities Commission ("Commission") these Comments regarding the Commission's March 30, 2007 Notice for Comments in the above referenced Docket (the "Investigation Docket"). The Commission requested comments to help determine whether the investigation into the usefulness of the fuel clause adjustment ("FCA") should be continued.

This docket was initiated in 2003 when the Commission requested general comments to help define the scope and procedures for this inquiry into the FCA. Since that time, Minnesota electric utilities have joined the Midwest Independent Transmission System Operator Inc. ("MISO") regional transmission organization ("RTO") and MISO has implemented its "Day 2" regional wholesale energy markets. The Commission Order approving the recovery of most MISO Day 2 costs through the FCA opened a separate docket associated with general industry structural issues related to MISO, in which the Commission has ordered that many of the same FCA issues be explored.<sup>1</sup> As a result, Xcel Energy believes the Commission should close

---

<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 *et al.*, *Order Establishing Accounting Treatment for MISO Day 2 Costs*,

the instant docket and address the issues posed in the Notice in the generic proceeding ordered in the MISO FCA Order.

## COMMENTS

### 1. General Comments

The Company believes the existing FCA mechanisms, which provide monthly tracking of fuel and purchased energy costs, have worked well and continue to achieve their intended purpose. In this regard, the Company believes a summary of the comments it provided on July 11, 2003 in response to the Commission's June 12, 2003 Notice of Comment, are useful here.

Minnesota electric utilities employ FCA mechanisms to recover the costs of fuel and purchased power. Similar mechanisms are commonly used throughout the country, even by non-jurisdictional utilities such as municipal utilities and cooperatives. While the terms and conditions of FCA mechanisms vary, they are a reasonable and appropriate method for cost recovery.

Minnesota statutes and MPUC rules govern the FCA currently employed by the Company. These statutory and regulatory requirements were created in recognition of the fact that fuel and purchased energy have unique characteristics compared to other costs of providing electric service. These unique characteristics are:

- The costs are large and increasingly volatile.
- The cost are market-driven and therefore largely beyond the control of the utility.
- The absence of a FCA cost-tracking and recovery mechanism would force frequent general rate case filings, significantly adding to administrative and regulatory costs without an off-setting ratepayer benefits.

Xcel Energy believes that these conditions continue to exist and, if anything, are becoming more pronounced. Further, a monthly FCA -- especially a forecasted FCA such as Xcel Energy employs in Minnesota -- provides better price signals to customers, thereby encouraging more economically efficient consumption patterns.

The Commission indicated that it was seeking comment on whether the investigation into the usefulness of the FCA should be continued, and if so what issues should be

---

Docket No. E002/M-04-1970 *et al.* (December 20, 2006) ("MISO FCA Order"). The MISO FCA Order initiated an investigation into "the best methods for assuring low-cost electricity in Minnesota".

pursued. The Company believes the Investigation Docket can and should be closed because any remaining issues will be addressed in the generic investigation ordered by the MISO FCA Order or can be consolidated into that new investigation.

## 2. Response to Notice Questions

The Company offers the following response to the specific issues listed by Commission in its March 30, 2007 Notice for Comment:

### *Incentives for controlling costs passed through the FCA*

Incentive-based FCA mechanisms can be pursued in the investigation docket opened by the MISO FCA Order. The Company is not opposed to consideration of an FCA incentive mechanism. Indeed, our affiliate Public Service Company of Colorado operates subject to such a mechanism today.

### *Price signals*

While price signals can also appropriately addressed in the investigation docket opened by the MISO FCA Order, the Company believes its forecast FCA provides appropriate price signals by setting rates for ratepayers that reflect the seasonality in fuel and energy market pricing. E.g., the forecast FCA tends to be highest for the months where costs are forecast to be highest, so ratepayers are encouraged to conserve.

### *Potential for fuel price manipulation*

This issue is also appropriately addressed in the investigation docket opened by the MISO FCA Order. The Company now operates in a wholesale electric energy market where all market participants are required to bid available supplies into the market on a day ahead and real time basis, subject to oversight by the MISO independent market monitor as well as the Federal Energy Regulatory Commission under its Anti-Market Manipulation and Market Behavior Rules.<sup>2</sup>

---

<sup>2</sup> *Prohibition of Energy Market Manipulation*, Order No. 670, 114 FERC ¶ 61,047 (2006); *reb'g denied* 114 FERC ¶ 61,300 (2006). Order No. 670 implemented new section 222 of the Federal Power Act ("FPA"), as added to the statutes by the Energy Policy Act of 2005 ("EPAAct 2005"). See Energy Policy Act of 2005, Pub. L. No. 109-58, 119 Stat. 594 (2005), sections 315 and 1283, respectively.

*Alternative FCA mechanisms such as the banding approach adopted in Wisconsin*

In addition to the potential for incentive FCA mechanisms, other alternative FCA mechanisms, such as the banding approach adopted in Wisconsin, should be addressed in the investigation docket opened by the MISO FCA Order. The Company notes, however, that FCA banding methods like that now used by electric utilities in Wisconsin are not the most appropriate fuel and energy cost mechanism given current fuel and energy market dynamics. The experience of our utility affiliate Northern States Power Company, a Wisconsin corporation ("NSPW") is illustrative. NSPW filed general rate cases on June 1, 2001, 2003 and 2005. In the past, those rate cases would establish the fuel cost recovery factor for a two-year period. However, due to volatile fuel and purchased power prices, NSPW has needed to file to reset its fuel recovery rates multiple times between its biennial rate cases due to under-collection or over-collection of fuel and power costs. During the period between June 1, 2001 – 2005, NSPW has also needed to file three times for an emergency rate surcharge to recover higher than authorized fuel costs as a result of market volatility.

Indeed, the Public Service Commission of Wisconsin ("PSCW") has opened a docket to explore changes to the existing fuel rules because it recognizes the current rules no longer function well due to increased volatility of fuel costs and energy costs, citing events such as implementation of MISO Day 2 market, increased demand on some fuels, increased transportation of some fuels, and the effects of hurricanes on the availability of some fuels (see PSCW Docket 1-AC-224). Because of the regulatory lag inherent in the current fuel rules, and the potential for the customer to be harmed as well as the utility, the utilities of Wisconsin submitted a joint proposal to incorporate a plan year forecast and an after-the-fact reconciliation to eliminate regulatory lag and ensure recovery of prudently incurred costs. The proposed mechanism is similar to the Power Supply Cost Recovery ("PSCR") mechanism used in Michigan.

*Data reporting including what is reported and how frequently*

The Company notes that since the time the Investigation Docket was opened, all electric utilities have significantly expanded reporting in both their monthly FCA filings and Annual Automatic Adjustment of Charges ("AAA") reports to comply with various Commission orders in the MISO Transfer Orders,<sup>3</sup> the MISO FCA Order, and annual AAA orders.<sup>4</sup> Specifically, the Company and other electric utilities have added the following reporting requirements:

---

<sup>3</sup> Docket No. E002/M-04-1970

<sup>4</sup> Docket No. E,G999/AA-05-1403

- Annual Compliance Report in AAA (Docket No. E002/M-00-257);
- Annual Compliance Report in AAA (Docket No. E002/M-04-1970, *et al*, April 7, 2005, December 21, 2005 and February 24, 2006);
- Compliance Report in Monthly FCA Filing (Docket No. E002/M-04-1970 *et al*, April 7, 2005, December 21, 2005, February 24, 2006 and December 20, 2006
- 2005 MISO Day 2 Schedule 16 and 17 Monthly Refund Report in Monthly FCA Filing (Docket No. E002/M-04-1970, December 20, 2006).

To the extent additional regulatory reporting is considered necessary, that issue can be addressed in the investigation docket opened by the MISO FCA Order.

*Regulatory oversight of FCA data reporting*

The Company has fully complied with all the data reporting requirements, as mentioned above. Specifically, the monthly FCA filing, the annual AAA, and various MISO reporting requirements are already being met. As demonstrated by the Department's review of utility AAA reports, the Joint Report submitted in the MISO Day 2 FCA dockets, and the pending Department review of quarterly FCA information in Docket No. E999/DI-0-7-301 (on the Commission agenda for the May 3, 2007 hearing), there is significant regulatory oversight of utility fuel and purchased energy costs.

*Changes required in the FCA enabling statute; Minn. Stat. 216B.16, subd. 7*

The Company does not believe any legislative changes are necessary at this time. As the Commission is aware, the Office of Attorney General - Residential and Small Business Utilities Division ("OAG") has filed an appeal of the MISO FCA Order, asserting that recovery of MISO Day 2 costs through the FCA is not consistent with the statute. Depending on the outcome of that appeal, it may be necessary to modify the enabling statute.

*Emission allowances and other environmental credits*

As the Commission is aware from the Company's 2005 electric rate case (Docket No. E002/GR-05-1428), the Company deferred revenues from the sale of emission allowances for several years, and those revenues are now flowing back to ratepayers in base rates.

The Company anticipates that appropriate regulatory accounting will need to be developed for renewable energy credits ("RECs"). The Company believes issues related to RECs should be addressed through an investigation or miscellaneous docket focused specifically on RECs. Given the timing and need for accounting certainty, this issue probably is not appropriate for the investigation docket opened by the MISO FCA Order.

*Other relevant issues*

MISO has proposed to implement a "Day 3" centralized regional ancillary services market ("ASM") under its TEMT in 2008. The ASM proposal is pending FERC action at this time in Docket No. ER07-550-000. Implementation of the ASM raises issues of FCA accounting and utility cost recovery analogous to the issues raised by implementation of the MISO Day 2 wholesale energy market. These issues can appropriately be addressed through an investigation or miscellaneous docket focused specifically on ratemaking accounting for costs and revenues under the ASM market. Given the timing of the expected start of the ASM and need for accounting certainty, this issue probably is not appropriate for the investigation docket opened by the MISO FCA Order.

## **CONCLUSION**

Xcel Energy believes that the existing FCA mechanism is reasonable and appropriate and continues to serve a useful ratemaking purpose. And, because of opportunity to address the FCA issues in various other forums, such as the investigation docket ordered by the MISO FCA Order or specific dockets related to accounting treatment of RECs and the MISO ASM, we recommend that the 2003 Investigation Docket be closed.

Dated: April 30, 2007

Northern States Power Company,  
A Minnesota corporation and wholly  
Owned subsidiary of Xcel Energy Inc.

## CERTIFICATE OF SERVICE

I, Carole Wallace, hereby certify that I have this day served copies of the foregoing document on the attached list of persons by delivery by hand or by causing to be placed in the U.S. mail at Minneapolis, Minnesota.

**DOCKET No. E999/CI-03-802**

Dated this 30<sup>th</sup> day of April 2007

---



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)

Burl W. Haar (O+15)  
Executive Secretary  
Minnesota Public Utilities Commission  
121 East Seventh Place, Suite 350  
St. Paul, MN 55101-2147

Kathy Aslakson (4)  
Docket Coordinator  
Minnesota Department of Commerce  
85 7<sup>th</sup> Place East, Suite 500  
St. Paul, MN 55101-2198

Julia E. Anderson  
Minnesota Attorney General's Office  
1400 NCL Tower  
445 Minnesota St  
St Paul, MN 55101-2131

Curt Nelson  
OAG-RUD  
900 NCL Tower  
445 Minnesota Street  
St. Paul, MN 55101-2127

Christopher Anderson  
Senior Attorney  
Minnesota Power  
30 West Superior St  
Duluth, MN 55802-2093

Bernadeen Brutlag  
Manager  
Otter Tail Power  
PO Box 496  
215 South Cascade  
Fergus Falls, MN 56538-0496

Mark F. Dahlberg  
President  
NW Wisconsin Electric Company  
PO Box 9  
Grantsburg, WI 54840-0009

Marilyn E. Foreman  
Dakota Electric Association  
4300 – 220<sup>th</sup> Street West  
Farmington, MN 55024-9583

Bruce Gerhardson  
Associate General Counsel  
Otter Tail Power Company  
PO Box 496  
215 South Cascade St  
Fergus Falls, MN 56538-0496

William L. Glahn  
Dahlen, Berg & Co.  
200 South Sixth St, Suite 300  
Minneapolis, MN 55402-1423

Todd J. Guerrero  
Lindquist & Vennum, PLLP  
4200 IDS Center  
80 South Eighth Street  
Minneapolis, MN 55402-2205

Douglas R. Larson  
Power System Engineering Inc.  
Suite 250  
12301 Central Avenue NE  
Blaine, MN 55434

Scot McClure  
Interstate Power & Light Company  
PO Box 77007  
4902 North Biltmore Lane  
Madison, WI 53707-1007

Phillip Zins  
Pricing & Planning Manager  
Xcel Energy  
414 Nicollet Mall, 5th Flr  
Minneapolis, MN 55401-1993

Jennifer Moore  
Regulatory Attorney  
Alliant Energy Corporate Services Inc.  
200 First Street SE  
PO Box 351  
Cedar Rapids, IA 52406-0351

SaGonna Thompson  
Records Analyst  
Xcel Energy  
414 Nicollet Mall, 5<sup>th</sup> Flr  
Minneapolis, MN 55401-1993