



414 Nicollet Mall  
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## ELECTRONIC FILING

September 28, 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  
DOCKET NO. E999/CI-03-802

Dear Dr. Haar:

Northern States Power Company (the "Company" or "Xcel Energy"), a Minnesota corporation and wholly owned subsidiary of Xcel Energy Inc., hereby submits the Comments in the above-referenced matter.

Copies of this filing have been served on the Department of Commerce and the Office of the Attorney General – Residential Utilities Division. Summaries of this filing have been served 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 CASE SPECIALIST

Enclosures  
c: Service List

STATE OF MINNESOTA  
BEFORE THE  
MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Kopardrayer	Chair
David Boyd	Commissioner
Marshall Johnson	Commissioner
Thomas Pugh	Commissioner
Phyllis Reha	Commissioner

IN THE MATTER OF THE COMMISSION'S  
INVESTIGATION INTO THE  
APPROPRIATENESS OF CONTINUING TO  
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ADJUSTMENTS

DOCKET NO. E999/CI-03-802

**COMMENTS OF XCEL ENERGY**

**INTRODUCTION**

Northern States Power Company (the "Company" or "Xcel Energy"), a Minnesota corporation and wholly owned subsidiary of Xcel Energy Inc., submits to the Minnesota Public Utilities Commission ("Commission" or "MPUC") these Comments in response to the Commission's Notice dated August 16, 2007, in this proceeding. The Notice established a timeframe for comments and replies regarding additional issues that may be appropriate for further review in this proceeding, as recommended by the Minnesota Department of Commerce ("Department") in its July 27, 2007 Comments.

**COMMENTS**

The Commission's Investigation in this docket has gathered information on a wide variety of topics related to the fuel clause adjustment mechanism ("FCA"). More recently, the Department conducted several meetings of utilities and key stakeholders to discuss issues related to the FCA. Based on these meetings and the comments supplied by parties to date, the Company believes that the following topics are appropriate for continued discussion and review in this proceeding:

- The need for improved provision of information to stakeholders and customers regarding the level and key drivers of the FCA,

- The need for greater prior review of the expected FCA costs to mitigate burdensome ex-post review of the costs, and
- The value of incentive mechanisms in encouraging enhanced utility performance in managing the costs recovered in the FCA.

Each of these topics is discussed below.

#### **A. Improved Provision of Information**

The Department has correctly noted in its comments and in discussions with stakeholders that recent increases in the level and volatility of the FCA increases the need for customers to be better informed about current and future levels of the FCA and the reasons for changes to the FCA. This information will help customers with budget planning and will assist them in making informed decisions regarding current and future energy consumption, including potential investments in energy-consuming products, energy-saving devices, and potentially planned maintenance on their facilities. We also recognize that many stakeholders and customers desire a greater understanding of the key causes of changes to their energy costs and agree that this information should be made available.

With the Department's leadership, significant progress has been achieved in this area. Based upon recommendations by the Department in other proceedings, the Company now submits detailed monthly cost information comparing forecasted costs to actual costs for that month by fuel and purchased power category. The Company also submits detailed monthly outage information for owned generation facilities and estimates the costs of these outages.

At a stakeholder meeting on September 19, 2007, parties discussed the concept of periodic informational meetings where stakeholders can gain greater insight into the Company's forecast of FCA costs and the steps that the Company is taking to mitigate these costs. This process would kick-off after the submission of each utility's Annual Automatic Adjustment of Charges filing ("AAA") on September 1st, in which utilities provide a forecast of expected costs of fuel and purchased power for the coming year. At the initial meetings -- stakeholders discussed the need for a separate meeting for each utility -- each utility would present its forecast and discuss key drivers, expected trends, and key uncertainties affecting the FCA over the upcoming year. This information would provide a framework for reviewing and tracking actual FCAs over the course of the year, and would help highlight any deviations from forecast that occur. To the extent deviations are large or a significant event occurs on

a utility's system, subsequent stakeholder meetings could be arranged throughout the year, as necessary. Under the FCA Settlement in the Company's 2006 electric rate case (Docket No. E002/GR-05-1428), the Company holds meetings bi-annually.

Such meetings would allow customers to accomplish both goals cited above: to make informed energy use decisions and to gain greater understanding of the key causes of changes in energy costs. We also believe this improved exchange of information will assist the state agencies in tracking and monitoring the appropriateness of our FCA, as discussed further in the next section. Therefore, we believe that reaching consensus regarding further definition of the substance for these meetings and reporting in monthly FCA filings to allow tracking of deviations from forecast to actual would be appropriate for continued work in this proceeding.

The Company notes that at such meetings significant operational detail could be shared with participants and nondisclosure agreements -- or other protective measures under the Data Practices Act for meeting participants from state agencies -- would be required of all participants. We believe such measures are necessary to protect information that could be used against the Company (and ultimately our ratepayers) in a competitive wholesale electricity environment, and is necessary to comply with Federal Energy Regulatory Commission ("FERC") requirements prohibiting inappropriate use of information to manipulate wholesale market prices. In addition to the periodic meetings discussed above, the Company would also be open to making additional information available to customers with neither the time nor the interest in participating in meetings. For these customers, the Company would be interested in discussing simpler means of providing customers with improved information to make better-informed decisions regarding energy use. This information would be less detailed, would be made available through access to our website and would not require nondisclosure agreements. Obtaining further definition and consistency regarding this public information would be appropriate, so that customers with locations across the state can get similar information from multiple electric utilities. We believe that continued dialogue in this proceeding regarding this issue would be valuable.

## **B. Increased Prior Review of Expected Costs and Actions**

To date, the primary method of reviewing electric utilities' efforts to minimize FCA costs has been ex post review of fuel and purchased power expenses. Specifically, the utilities' monthly FCA filings and annual AAA filings have provided forums for review of historical FCA costs. Although ex post reviews are a useful tool for determining the prudence of utility actions, they can lack the transparency that a before-the-fact review of utility efforts to minimize FCA costs can bring. Utilities are

required to make multiple decisions regarding fuel and purchased power expenses under uncertain conditions.

The Company believes that it would be valuable for stakeholders to have input, where possible, into the decisions that utilities are making on their behalf. This type of review will facilitate greater understanding of utility procurement practices and decision-making and the potential risks and rewards associated with alternative procurement strategies.

The Company is uncertain at this time whether a prior review of costs and actions needs to take place through a formal proceeding or whether the less formal stakeholder meetings discussed above would provide adequate forums for review. Since all parties are concerned with the resources required through introduction of additional proceedings, the Company recommends initially attempting to implement this review through a less formal process, similar to the stakeholder meetings to facilitate the information exchange discussed above.

### **C. Value of Incentive Mechanisms**

The Department has recommended in its comments and in the stakeholder meetings that incentive mechanisms be developed to encourage utilities to make prudent decisions on behalf of their ratepayers. While the Company supports exploration of an incentive mechanism for the FCA, we do not view these mechanisms as substitutes for the thorough review of utility actions that now take place within the monthly and annual FCA dockets. Rather, incentive mechanisms serve as complements to such activity. Further, given the issues at stake, it is vitally important that such mechanisms be developed carefully and thoughtfully so that they are effective in providing utilities appropriate incentives on factors within their control. Incentives that reward or punish the utilities for factors that are outside of their control will, by definition, have no impact on utility incentives to minimize FCA costs and may have other unintended consequences, such as making it more difficult for a utility to raise sufficient capital to continue to effectively meet its customers' growing energy needs or even allowing the utility to substantially over-recover its actual costs. The Company's experience in other jurisdictions has been that effective and balanced mechanisms take some time to develop and cannot be done without in depth knowledge by stakeholders of the key drivers of FCA costs.

The recommended stakeholder meetings discussed above would provide a valuable starting point for understanding the key drivers of FCA costs and identification of potential areas where incentive mechanisms can effectively align shareholder and ratepayer interests. Some discussion has already taken place at recent stakeholder

meetings organized by the Department. While this process may require more time than immediate development of incentive mechanisms, the Company believes that more effective and enduring incentive mechanisms are appropriate for further consideration and development through this investigation process.

### **RECOMMENDATIONS**

The Company recommends that the Commission keep the existing docket open and direct parties to develop more detailed recommendations addressing three issues:

- Improved provision of FCA information to stakeholders;
- Increased focus on before-the-fact review of forecasted FCA costs and utility actions to mitigate these costs; and
- Development of FCA incentive mechanisms to better align ratepayer and shareholder interests.

The Company believes that parties have benefited from the discussions resulting from this proceeding and is willing to continue to meet with parties to further develop the recommendations we have made above.

Dated: September 28, 2007

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

By: \_\_\_\_\_  
JUDY M. POFERL  
DIRECTOR  
GOVERNMENT AND REGULATORY AFFAIRS

## **CERTIFICATE OF SERVICE**

I, Nancy A. Haley, 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 28<sup>th</sup> day of September 2007

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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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