

# Minnesota Public Utilities Commission

## Staff Briefing Papers

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**Meeting Date:** December 12, 2013 ..... **Agenda Item #** \_10\_

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**Companies:** Northern States Power Company d/b/a Xcel Energy (Xcel or the Company)

**Docket No.** E-002/MR-13-869  
In the Matter of the Petition of Northern States Power Company for Approval  
of a New Base Cost of Energy.

**Issues:** Should the Commission approve Xcel's proposed new base cost of energy?

**Staff:** Dorothy Morrissey ..... 651-201-2232  
Jorge Alonso ..... 651-201-2258

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### ***Relevant Documents***

Xcel Energy initial filing ..... Nov. 4, 2013  
Department of Commerce Comments ..... Dec. 4, 2013  
Department of Commerce Letter ..... Dec. 10, 2013

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The attached materials are workpapers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless otherwise noted.

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## Statement of the Issues

Should the Commission approve Xcel's proposed new base cost of energy?

## Background and Filing Summary

### Xcel Petition

Xcel's new Base Cost of Energy petition was filed in conjunction with its general rate case (Rate Case) in Docket No. E-002/GR-13-868.

The Company has proposed a Base Cost of Fuel of \$0.02780 per kilowatt hour (kWh), an increase of \$0.00051 per kWh (a 1.9 percent increase) over the current \$0.02729 per kWh base cost of fuel recently established (Docket No. E-002/MR-12-1150).

The Company's proposed Base Cost of Fuel Rate is developed using Total NSP System forecasted costs and forecasted retail sales.<sup>1</sup> (The Total NSP System is composed of NSP-Minnesota and NSP-Wisconsin and the forecasted retail sales of the five respective jurisdictions served.) To determine the Minnesota fuel cost for the 2014 test year, the Company used the Total System's projected per kWh unit cost, multiplied by the net Minnesota jurisdictional projected monthly calendar sales.

Because the base cost of energy is developed using projections, Xcel files monthly fuel clause adjustments to reflect its actual fuel costs and retail sales. Xcel's fuel clause rider (or adjustment) mechanism (the FCR or the FCA) is designed to correct for deviations from the base cost of energy. Essentially, Xcel's FCR operates as a pass-through to recover the actual costs of energy delivered and to return any over-collection of energy costs. Regardless of the base cost of energy established, through the operation of the monthly adjustments, the consumer will ultimately pay the same cost for energy.

### Department – December 4th Comments

The Department reviewed the filing and stated that the Company's methodology to develop the proposed base cost of fuel is consistent with its prior base cost of fuel filings. However, in this proceeding, the Department raised concern with respect to the Company's sales forecast and the projected cost of fuel. Compared to Xcel's prior filings<sup>2</sup>, Xcel has forecasted lower retail sales (in 2014), yet projects a higher cost of fuel. The following table summarizes Xcel's recent filings' projections/actuals referenced by the Department:

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<sup>1</sup> In general, the base cost of fuel is calculated on a Total System basis: the Total NSP System costs are divided into Total NSP System retail sales (net of intersystem sales and WindSource program costs and sales).

<sup>2</sup> Docket Nos. E-999/AA-13-599 and E-002/MR-12-1150 & GR-12-961.

Docket	E-002/MR-13-869	E-002/M-12-1150/GR-12-961	E-999/AA-13-599	
			Fiscal Year 2013 AAA Reports	
Description	Proposal under review	2012 Rate Case	Fiscal Year 2013 AAA Reports	
Filing Date	11/4/2013	11/2/2012	Monthly <sup>‡</sup> - 1 mo. Prior	9/4/2013
Data Character	Forecast	Forecast	Forecast	Actual
Period	Jan. 2014 - Dec. 2014	Jan. 2013 - Dec. 2013	Jul. 2012 - June 2013	Jul. 2012 - June 2013
Net* System Fuel Costs	\$ 1,134,210,000	\$ 1,119,749,000	\$ 1,123,221,410	\$ 1,199,911,735
Net* System MWh Sales	40,801,580	41,035,522	41,311,806	42,114,511
System Costs per kWh	\$ 0.027798	\$ 0.027287	\$ 0.027189	\$ 0.028492
MN Jurisdictional MWh Sales	30,069,689	30,249,044	30,376,652	30,879,039
Commission Approved MN Juri MWh Sales		30,844,779		
* - Net of Windsource Program & Intersystem Sales				
‡ - Sales Forecast are weather normalized and extracted from a sales vintage created periodically (annual, bi-annual, etc.).				

Additionally, the Department noted that the base cost of energy may be affected by a recent decision by the United States Court of Appeals to suspend United States Department of Energy's (DOE) assessment of nuclear disposal fees charged annually to nuclear power plant operators.<sup>3</sup> The Department stated that Xcel's payment to DOE averages about \$12 million per year which Xcel recovers from ratepayers through the FCR.<sup>4</sup>

The Department stated that if any significant adjustment to the cost of energy occurs during the pendency of the Rate Case, that the base cost of energy may need to be revised subsequent to the Commission's decision in this docket, and reflected in final rates. Test year sales forecast will be investigated within the Rate Case. The Department also noted that the Company's class-specific allocation of fuel costs will be addressed in the Rate Case.

The Department concluded that Xcel's proposed base cost of fuel rate is too high and had recommended to retain the current base cost of fuel rate of \$0.02729 per kWh (established in Docket No. E-002/GR-12-961).

#### Department – December 10th Letter

The Department filed a letter to its comments and stated that it recognized the procedural difficulties in making any change to the Company's proposed base cost of energy due to its extensive integration in Xcel's prepared schedules and testimony of the concurrently filed general rate case (Docket. No. E-002/GR-13-868). The Department indicated that although there is no requirement to do so, the practice has been to approve a new base cost of energy at the beginning of the rate case. The Department emphasized the importance of the issues raised in its comments in this petition and expects these questions will be resolved through its investigation and when the Commission makes its final determination in the Rate Case.

<sup>3</sup> National Association of Regulatory Utility Commissioners v. United States Department of Energy, United States Court of Appeals for the District of Columbia Circuit, No. 11-1066 consolidated with No. 11-1068, Decided November 19, 2013.

<sup>4</sup> Docket E-999/AA-12-857, Xcel filing on August 31, 2013, Part H, Schedule 1, page 1.

The Department stated, though possible, requesting Xcel to reissue schedules would be inefficient and could lead to confusion in the record, especially since Rate Case discovery has commenced. Therefore, the Department recommended that the Commission approve Xcel's proposed base cost of energy, subject to refund, through the operation of the existing fuel clause adjustment. The Department also stated any rate case overcharges in base rates factors connected to the base cost of energy would be returned to ratepayers through the interim-rate refund. The Department indicated that this refund approach is consistent with the principles behind interim rates.

## **Staff Comments**

Staff is agreement with the Department and recommends that the Commission approve Xcel's proposed base cost of energy.

## **Decision Alternatives**

### ***Base Cost of Energy***

- A. Approve the Company's proposed new Base Cost of Energy of \$0.02780 per kilowatt hour, effective with the implementation of interim rates in Docket No. E-002/GR-13-868, to occur no earlier than January 3, 2014; or
- B. Reject the Company's proposed new Base Cost of Energy and retain the existing Base Cost of Energy rate of \$0.02729 per kilowatt hour.

### ***If Commission Approves Petition***

- C. Clarify that approval of the Company's proposed new Base Cost of Energy does not preclude any party from disputing the assumptions used in this petition (such as projected sales), or the Commission from adopting different assumptions than those used in this petition, when reviewing and determining final rates in the general rate case (Docket No. E-002/GR-13-868).

### ***Other***

- D. Clarify that the Base Cost of Energy rate may be subject to revision and possible refund based upon issues raised within the Company's general rate case (Docket No. E-002/GR-13-868).

## **Staff Recommendations**

Staff recommends decision options A, C and D.