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April 29, 2015

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E002/M-15-304

Dear Mr. Wolf:

Attached are the Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department), in the following matter:

Petition of Northern States Power Company d/b/a Xcel Energy (Xcel or the Company) for Approval of a Modification to the Renewable Energy Standard Rider Tariff, RES Adjustment Factor, and the 2014 RES True-up Report.

The Petition was filed on March 30, 2015 by:

Paul J. Lehman
Manager, Regulatory Compliance and Filings
Xcel Energy
414 Nicollet Mall, 7th Floor
Minneapolis, MN 55401

As discussed in greater detail in the attached Comments, the Department recommends that the Minnesota Public Utilities Commission (Commission) **approve** the Company's Petition with the minor modifications discussed below. The Department is available to answer any questions that the Commission may have in this matter.

Sincerely,

/s/ LAURA B. OTIS
Rates Analyst

LBO/lt

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET No. E002/M-15-304

I. THE COMPANY'S PROPOSAL

On March 30, 2015, Northern States Power Company, d/b/a Xcel Energy (Xcel or the Company) filed with the Minnesota Public Utilities Commission (Commission) a petition for approval of the Renewable Energy Standard (RES) Rider true-up report for 2014 and a proposal to refund \$5.1 million (Petition). The RES Rate Adjustment Factors proposed in the Petition were calculated based on the difference between 2014 actual and test-year Production Tax Credits (PTCs),¹ and include carryover PTC balances from 2012 and 2013. Xcel applied the Xcel Energy/Northern States Power Company-Wisconsin Interchange Agreement demand allocator and the Minnesota Jurisdictional energy allocator in its calculations.

In the Petition, Xcel requested approval to provide a refund to customers in its Minnesota jurisdiction resulting from the Company producing higher wind generation in 2014 than it forecast for the 2014 test year. This resulted in Xcel receiving more PTCs for 2014 wind generation than was forecast and led to over collection of RES funds in 2014. The Company proposed to return over-collected funds to its customers by revising the RES Adjustment Factor to -2.609%, going into effect on June 1, 2015 for one month, before returning to its present rate of 0.00% on July 1, 2015. Xcel estimated that the effect of the rate change for a typical residential electric customer using 750 kilowatt hours (kWh) per month would be a refund of a \$1.91 for June 2015, followed by no effect on customers' bills from July 2015 forward.

¹ The level of 2014 test year PTCs was determined in Docket No. E002/GR-13-868 and are reflected in base rates.

II. BACKGROUND

The Commission's October 23, 2009 Order on pages 28 to 29 in Docket No. E002/GR-08-1065 approved an annual true-up mechanism to enable Xcel to recover the difference between the projected PTCs recovered through base rates and the actual PTCs received, which are based on actual production levels. In the Company's subsequent electric rate case (Docket No. E002/GR-10-971), the Company proposed to continue to use the RES Rider true-up mechanism to true-up the recovery of the estimates of PTCs included in base rates. The RES Rider is designed to allow for the automatic adjustment of charges to recover prudently-incurred investments, expenses, or costs associated with facilities constructed, owned, or operated by a utility to satisfy the RES Statute,² provided those facilities were previously approved by the Commission.

Currently, the RES Rider contains only those costs associated with the true-up of PTCs related to energy production at Company-owned wind farms.³ A true-up is necessary since the level of PTCs associated with wind facilities cannot be precisely predicted.

The Commission's November 20, 2014 Order in Docket No. E002/M-14-733 approved the factor's reduction to zero percent effective January 1, 2015. The rate currently remains at 0.00 percent.

III. THE DEPARTMENT'S ANALYSIS

As the Company indicated in its Petition, Minn. Stat. §216B.1645, Subd. 2 allows public utilities to recover investments and expenditures entered into or made to accommodate the addition of renewable energy resources:

. . . Upon petition by a public utility, the commission shall approve or approve as modified a rate schedule providing for the automatic adjustment of charges to recover the expenses or costs approved by the commission, which in the case of transmission expenditures, are limited to the portion of actual transmission costs that are directly allocable to the need to transmit power from the renewable sources of energy.

The Company noted in its Petition that the RES Rider currently contains only those costs associated with the true-up of PTCs related to energy production at Company-owned wind farms. Xcel stated that a true-up is necessary because the level of PTCs associated with the wind facilities varies.

² Minn. Stat. § 216B.1691

³ The costs associated with the Grand Meadow Wind Farm and the Nobles Wind Farm were approved in Xcel's 2010 RES Rider Petition (Docket No. E002/M-10-1066) and moved to base rates during the Company's 2010 electric rate case (Docket No. E002/GR-10-971).

The Company proposed to refund \$5.1 million to customers through the June 2015 RES Adjustment Factor, followed by a reduction in the RES Adjustment Factor from July 2015 onward so that no further recovery occurs until the Company's next RES Rider Adjustment petition is approved. The proposed refund is a true-up of actual PTCs received in 2014 as compared to the PTCs forecasted in the 2014 test year as well as the net carryover balance from the 2012 and 2013 PTC true-ups of revenue and collections.

A. *REVENUE REQUIREMENTS CALCULATIONS*

The Company proposed to allocate costs using the percentage of revenue (interim rates) methodology to refund the revenue requirement. This is done by calculating the percentage decrease necessary to refund the true-up amount, which is based on the quotient of the RES Rider costs over base revenues.⁴

RES Rider costs are determined by subtracting forecasted PTCs from actual PTCs. Both actual and forecasted PTCs are allocated to Minnesota customers using allocator mechanisms, as shown on Petition Attachment A, page 3, and as further discussed below.

1. Allocations to Other Jurisdictions

Due to the fact that the revenue requirements subject to true-up are only applicable to Minnesota retail customers, the Company must apply allocators to its total costs.

The Interchange Agreement Allocator allocates a share of total costs to Northern States Power Wisconsin (NSPW). This allocator is applied by multiplying total eligible costs by the Company's demand factor under the FERC-approved Interchange Agreement between Xcel and NSPW.

The Jurisdiction Allocator excludes the portion of Company costs not related to serving Minnesota retail customers⁵. This allocator is applied by multiplying the Company total by the Minnesota energy allocation factor.

The calculations used to derive the allocators can be found in the Company's initial filing in their most recent rate case, Docket No. E002/GR-13-868. The Department has reviewed the allocators used to allocate 2014 PTCs to the Minnesota jurisdiction and has found them to be identical to those calculated in the Company's most recent rate case and concludes that they are correct and it is appropriate to factor the above allocators into the true-up calculations.

2. PTC Forecast

PTCs are awarded to the Company-owned wind farms based on total energy production. Because energy production at wind farms is variable, expected PTCs must be forecast based on expected energy production. According to the Petition, the Commission verbally

⁴ The calculation excludes fuel costs, riders, and taxes.

⁵ This allocates a share of the costs to the North Dakota and South Dakota retail jurisdictions.

approved⁶ the base rate levels that include the estimated PTC levels on March 26, 2015 and thus are included in base rates in the Company's 2014 test year electric rate case (Docket No. E002/GR-13-868). PTCs were forecast by multiplying expected kWh generated by the effective per kWh credit at the time. This filing trues up the forecasted 2014 PTCs with actual PTCs generated in 2014.

3. *Actual PTCs*

Actual PTCs are calculated based on actual production at the Company-owned wind farms in kWhs, which is then multiplied by the PTC value per kWh. This calculation is shown on page 4 of Attachment A to the Petition.

Once actual PTCs have been calculated, and allocators have been applied to both actual and forecasted PTCs, the forecasted PTC's are subtracted from actuals. One final calculation is performed on the resulting figure to adjust for the Company's composite tax rate. The resulting figure from this final calculation is the revenue requirement,⁷ and the true-up amount for the year.

The Department reviewed the Company's calculations for the PTC true-up as provided in the Petition in Attachment A, pages 3 and 4. The Department was able to tie the total Company PTC amounts on Attachment A of the Petition to the amounts included for the 2014 test year in the Company's most recent rate case (E002/GR-13-838).⁸ The Department also attempted to compare the PTC amounts reported on page 3 of Attachment A to the actuals that are reported in its 2014 tax forms. However, those forms are not yet available, as they are not scheduled to be filed until later this year.

Therefore, the Department was unable to verify the actual PTC amounts reported by the Company for 2014. In the two most recent RES true-up dockets⁹ the Department was able to obtain relevant tax documentation and was able to tie the reported PTC amounts to the PTCs reported in the tax documents because the Department filed comments in those matters after the information became available. Since Xcel's proposal involves a refund to customers, the Department concludes that a decision in this matter should not be delayed for the purposes of 2014 PTC validation.¹⁰ However, the Department recommends that that Xcel be required to file copies of the relevant 2014 tax forms supporting its 2014 actual PTC figure in the Company's 2015 RES true-up filing.

⁶ The written order has not yet been filed.

⁷ Revenues would be subtracted from the revenue requirement to calculate the final amount, but since the current RES Rider adjustment factor is set to zero, no revenues were collected through the Rider so this step is unnecessary.

⁸ Volume 4A, 5 of 9, Test Year Workpapers, P8, Tax Credits, Page P8-2.

⁹ Docket Nos. E002/M-14-733 and E002/M-13-475

¹⁰ Xcel files form 8835, which reports Renewable Electricity...Production Credit, in September.

B. RES RIDER TRUE-UP REPORT

As with other rate adjustment mechanisms, the RES Rider uses a tracker account (RES Rider Tracker) to account for eligible PTCs. Each month, the Company tracks PTC recovery under the RES Adjustment Factor as compared to the amount included in base rates. Under-recovered amounts are tracked in FERC Account 182.3, Other Regulatory Assets, while over-recovered amounts are tracked in FERC Account 254, Other Regulatory Liabilities. The over- or under-recovered balance from the previous year is included in the calculation of the RES Adjustment Factor.

Consistent with a prior Commission Order,¹¹ the Company has provided the amount collected from retail customers and PTCs in Attachment A to the Petition. The Department has reviewed Xcel's 2014 True-up report provided in Attachment A and concludes that it is reasonable. The Department recommends that the Commission accept Xcel's 2014 True-up Report.

C. CALCULATION OF THE RES ADJUSTMENT FACTOR

As stated in section A above, the Company calculated the RES Adjustment Factor by dividing the RES Rider costs by their projected revenues for the month of the refund (June 2015).

$$RES\ Adjustment\ Factor = \frac{RES\ Rider\ Cost}{Revenues,\ excluding\ fuel,\ riders,\ and\ taxes}$$

Based on the RES Rider cost and June 2015 revenues calculated in Attachments A and B to the Petition, Xcel calculated a June 2016 RES Adjustment Factor of -2.609%. Xcel stated that this Adjustment Factor results in an average bill impact for a typical residential customer using 750 kWh per month of \$1.91 refunded on one month's bill.

The Company provided the calculations for the RES Adjustment Factor on page 1 of Attachment A to the Petition. The Department has investigated this calculation and concludes that it is correct, reasonable, and in line with the Commission's Orders in previous RES Rider True-up dockets¹².

D. REVISED TARIFF SHEETS AND CUSTOMER NOTICE

The Department has reviewed Xcel's redline and clean versions of its RES Rider tariff pages as provided in Attachment C to the Petition. Based on its review, the Department notes that the only changes proposed in the tariff are the change to the RES Adjustment Factor and administrative updates to the Revision No., Date Filed, Docket No., Issue By, Order Date, and Effective Date. The Department concludes that the redline changes to the Company's tariff are reasonable and consistent with the Company's request.

¹¹ Commission Order dated March 20, 2008 in Docket No. E002/M-07-872. Several other pieces of information are also listed, but are not relevant to this docket.

¹² Docket Nos. E002/M-14-733 and E002/M-13-475.

The Department recommends that the Commission approve the Company's proposed RES Rider tariff revisions as proposed in Attachment C to the petition.

The Department has reviewed the Company's proposed customer notice as found on page 8 of Xcel's Petition. Based on its review, the Department considers the Company's notice to be acceptable but recommends two minor revisions. The Department suggests the following changes to the proposed customer notice to be provided on the June 2014 bills, as follows:

For tThis month only, the Resource Adjustment has decreased due to changes in the Renewable Energy Standard (RES) Rider which recovers our investments and expenses to add renewable energy systems to our generation resources. To return excess collections, the RES Rider portion of the Resource Adjustment is negative 2.609% of these charges on your bill: basic service charge, energy charge, and demand charge.

The first change would help clarify that the RES refund will be disbursed only in the month of June 2015. The second would ensure that customers understand what the RES Rider referenced in line four above is referring to.

The Department also suggests that the second edit above also be added to the July 2015 customer notice:

Starting this month, the Renewable Energy Standard (RES) Rider portion of the Resource Adjustment is 0.00%.

The Department recommends that the Commission approve the proposed revised tariff sheets and customer notices, as amended above.

IV. CONCLUSIONS AND RECOMMENDATIONS

A. CONCLUSIONS

The Department has generally found the Company's RES Rider revenue requirement calculations to be reasonable, though it was unable to verify actual 2014 PTC revenues at this time. The Department does not consider this enough of an issue to merit delay of a decision on the Petition, and concludes that verification of 2014 PTCs can occur during review of Xcel's 2015 RES Rider petition.

The Department considers the Company's 2014 RES True-up Report to be reasonable.

The Department considers the Company's calculation and proposed implementation of the RES Adjustment Factor of negative 2.609% for "All Classes" for the month of June 2015 and its proposal to then reduce the RES Rate Adjustment Factor to 0% starting in July 2015 to be

reasonable. The Department supports the Company's desire to refund over collections to its customers quickly through the one month negative RES Adjustment Factor.

The Department has considered the redline changes to the Company's tariff proposed by Xcel and concludes that they are reasonable and consistent with the Company's request.

Finally the Department considers the Company's proposed customer notice, as found on page 8 of the Xcel's Petition, to be reasonable with the incorporation of two minor adjustments, as outlined in section D above.

B. RECOMMENDATIONS

The Department recommends that the Commission:

- Accept Xcel's 2014 RES True-Up Report;
- Require Xcel to submit 2014 tax documentation verifying its 2014 PTCs in its 2015 RES filing ;
- Approve the Company's proposed RES Adjustment Factors and its proposal for implementation;
- Approve Xcel's RES Rider tariff revisions; and
- Approve the Company's proposed customer notice, as modified by the Department.

/lt

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce
Comments**

Docket No. E002/M-15-304

Dated this 29th day of April 2015

/s/Sharon Ferguson

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