STATE OF MINNESOTA
BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION
121 Seventh Place East, Suite 50
St. Paul, Minnesota 55101-2147

In the Matter of Review of the 2011-2012 Annual Automatic Adjustment Reports	MPUC Docket No. E999/AA-12-757

COMMENTS of the MINNESOTA CHAMBER OF COMMERCE

I. EXECUTIVE SUMMARY

The Minnesota Chamber of Commerce ("Chamber") appreciates the opportunity to comment in the utilities' AAA filing docket to the Minnesota Public Utilities Commission ("Commission").

The Chamber represents over 2,300 businesses throughout the state of Minnesota, these members include customers of all utilities regulated by the Commission. The Chamber deals with statewide issues at a policy level, as well as concerns businesses have with respect to doing business or continuing to do business within the state, such as having competitively priced, reliable and environmentally sound energy rates. Energy is one of the Chamber's focal points in terms of making Minnesota's business environment more competitive relative to other states and nations. Chamber members are located throughout Minnesota in all regulated utility service territories and are both large and small consumers of electricity, as well as high and low load factor customers.

Over the past several years the Chamber has had growing concern with fuel management, the changing fuel mix and power purchase practices that utilities have put in practice. Even for traditional fuels, Minnesota's utilities have changed the length of their purchases to much shorter contracts. These changes have, in part, led to the Chamber's intervention in resource planning and other dockets to comment on the concern over reduced stability in Minnesota's rates and loss of competitiveness, both in the short term and long term.

The Chamber is commenting in this proceeding to provide policy related feedback to the DOC's proposal to fix fuel and purchased power costs in base rates. The DOC has recommended such an approach in order to incentivize utilities to manage and minimize these costs in the same manner as other costs that are fixed in base rates. As the discussion below indicates, the Chamber supports DOC's recommendations to fix fuel and purchased power costs in base rates and provides additional guidance regarding this proposal and discusses our continued concern over long-term pricing that this proposal will not address. Further, the Chamber also supports the Department's September 5th recommendation to convene a meeting to further vet the standard of review regarding fuel cost recovery and urges the Commission to have this meeting as soon as practical.

II. INTRODUCTION

The current Fuel Cost Adjustment ("FCA") mechanism allows utilities' fuel and purchased power costs to be automatically passed through to ratepayers. The Department of Commerce ("DOC") conducts an after-the-fact review of these costs after the end of the year for all utilities. It is very difficult to verify after-the-fact whether the costs were prudently incurred given the long regulatory lag between the time that the costs are actually incurred, DOC's review and the Commission's determination. Thus, under the current mechanism, it is very difficult to protect ratepayers' interest. Furthermore, given the automatic pass through nature, there is no incentive for utilities to minimize fuel costs. For example, replacement costs associated with forced outages are automatically passed through the FCA rider, regardless of whether it is appropriate for ratepayers to incur these costs. Unlike treatment of fuel, utilities are motivated to minimize costs such as fixed O&M costs included in base rates between rate cases to maximize shareholder profits. This inconsistent treatment creates the potential for an inappropriate trade off where the utility could incur higher replacement power costs (passed on to ratepayers) at the expense of minimizing its O&M costs (benefiting the utility). Therefore, the Chamber believes that the current mechanism is inefficient and lacks the incentive for minimizing fuel costs.

Further, the Chamber agrees with the DOC's concern that under the current paradigm, the burden of proof falls on regulators or intervenors to prove that certain costs should be disallowed instead of the utilities having to prove that these costs are reasonable.

III. DOC'S PROPOSAL

The DOC's proposal consists of the following elements to address the foregoing concerns regarding fuel and purchased power costs:

- Recovery of energy costs are fixed in a rate case, with no adjustment between rate cases.
- The fixed rate would be based on the utilities' average energy costs ($/kWh) over the previous three years before a rate case is filed. Monthly energy rates would be set based on average costs for that month in the past three years.
- Utilities would need to submit rate case petitions in order to change these rates and the FCA Rider would be eliminated
- The new recovery mechanism would be implemented at the earliest of each utility's next rate case filing or July 1, 2014, which is the beginning of the next fiscal year (after the 2013-14 fiscal year) for annual automatic adjustments.
- While the DOC indicated a preference to net out wholesale margins, it stated that it did not object to the use of a fixed rate without wholesale margin offsets.

IV. CHAMBER'S COMMENTS

(a) Response to the Department's Proposed Approach

The Chamber shares the DOC's concerns and supports the approach to fix fuel and purchased power costs in base rates. These costs often represent 40% or more of a business customer's bill depending on load factor. Under the current mechanism, the risk associated with poorly managed fuel or purchased power acquisitions as well as risks on forced outages for utility owned and operated generation is passed on to the ratepayers. Thus, it is crucial that utilities are made more accountable for managing these costs. Utilizing the DOC's approach of fixing fuel costs in base rates is one way to shift this risk burden appropriately to the utilities.

The Chamber recommends the following changes in order to build on DOC's proposal:

- Similar to treatment of other costs, these costs should be adjusted for known and measurable changes in rate cases. The known and measurable changes aspect will assist in addressing utilities' concerns regarding forward looking costs.

- Outliers such as costs associated with forced outages should be removed in calculating the monthly energy costs.
- There should be proper accounting of wholesale margins.

The Chamber welcomes the opportunity to work with the DOC and other interested parties to further discuss this approach. The implementation of DOC's proposed approach combined with the Chamber's recommendations are an effective way of providing utilities the same motivation needed to minimize fuel costs as other costs such as fixed O&M included in base rates. Further, it also results in the same yardstick for prudency review as other costs fixed in base rates.[1] For all of the reasons discussed above, the Chamber believes that this approach is worthy of further discussion.

(b) Long Term Fuel Management Issues

Under the current mechanism, there is inadequate incentive to manage short term or long term fuel costs. The DOC's recommended approach along with the Chamber's changes will encourage short term fuel cost management and will not inhibit long term fuel management. Due to a utility's ability to account for known and measurable changes while fixing fuel costs in base rates, a utility will have the opportunity to reduce risks and enter into contracts that provide price stability. The Chamber has consistently commented in IRP proceedings, on the need for risk management for fuel purchases, including but not limited to concern on future natural gas pricing.

The Chamber believes that, in addition to the DOC's proposal to fix fuel in base rates, utilities file fuel risk management plans on the years that utilities do not file integrated resource plans.

Of concern to the Chamber, many utilities are considering expanded natural gas fired generation resources for long term electric supply needs of ratepayers. Natural gas has historically been much more volatile than other fuels, so it is important that risk management plans be put in place in order to protect customers from price volatility. The objective of the risk management plan would be to include a diversified strategy that incorporates a combination of

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[1]At the hearing in AAA 11-792 docket, the Commission identified the difficulty in rendering decisions to disallow fuel and purchased power costs on the basis that the standard of the prudence review was not defined. By fixing fuel costs in base rates, the Commission's concern regarding a lack of a clear definition of a "prudence standard" for fuel and purchased power is resolved.

storage, short term and long term procurement. Currently, the Chamber believes there is a deterrent to utilities entering long-term fuel agreements that may be in the best interest or ratepayers, because utilities have a reluctance to enter into a contract if there is a chance that prices are more favorable in the future. It could cause intervenors to argue that a contract was a poor decision that ratepayers should not pay for. This is currently a disincentive to long-term planning. The approach could be to have the risk management plan approved by the Commission so that utilities are not inhibited from implementing these longer-term strategies. The Chamber welcomes discussions with others regarding this approach and encourages the Commission to also consider providing guidance to the utilities regarding long term fuel management as described herein.

(c) Department's Request for Meeting at the Commission

On September 5th, the Department submitted a letter in the 2011 AAA proceeding reiterating that the status quo approach of FCA cost review makes it difficult at best to ensure that ratepayers' interests are adequately addressed. The Department essentially recommended that a meeting be convened to hear the views of the Commissioners and all parties regarding how the FCA should operate and provide feedback on the standard of review. The Department would like to obtain this feedback prior to finalizing the fuel cost treatment in the current docket. The Chamber welcomes the opportunity to participate and provide constructive feedback in this meeting. As discussed above, we concur with the Department and believe that the current approach is inefficient, shifts the burden of proof on ratepayers and does not provide adequate protection to ratepayers. We urge the Commission to convene this meeting as soon as practical.

V. CONCLUSIONS

The Chamber supports the DOC's recommendation to fix fuel costs in base rates. Further, the following changes to DOC's proposal should be incorporated:

- Similar to treatment of other costs, these costs should be adjusted for known and measurable changes in rate cases.
- Outliers such as costs associated with forced outages should be removed in calculating the monthly energy costs.

- There should be proper accounting of wholesale margins.

The DOC's recommended approach along with the Chamber's enhancements will encourage short term fuel cost management and not inhibit long term fuel management due to the ability to account for known and measurable changes while fixing fuel costs in base rates.

The Chamber also proposes development of a fuel risk management plan and welcomes comments from others regarding this approach in reply comments.

Finally, the Chamber also supports the Department's September 5th recommendation to convene a meeting to further vet the standard of review regarding fuel cost recovery and urges the Commission to have this meeting as soon as practical.