

November 30, 2018

PUBLIC DOCUMENT

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

RE: **PUBLIC Response Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) to Electric Utilities' Reply Comments**
Docket No. E999/AA-17-492

Dear Mr. Wolf:

Attached please find the Department's Trade Secret Response Comments to the electric utilities' reply comments in the matter of the 2016-2017 Annual Automatic Adjustment Report. The Department requests that the Minnesota Public Utilities Commission (Commission) receive these response comments, which are intended to help complete the record in this matter. Specifically, the Department responds to the reply comments of the following parties:

- Minnesota Power, reply comments filed on November 5, 2018;
- Northern States Power Company, d/b/a Xcel Energy, reply comments filed on October 29, 2018; and
- Otter Tail Power Company, reply comments filed on October 29, 2018.

Based on the review of each of the above-listed reply comments, the Department's attached response comments contain revised recommendations to the original recommendations included in the Department's *Review of the 2016-2017 (FYE17) Annual Automatic Adjustment Reports for Electric Utilities* filed on October 19, 2018.

The Department recommends that the Commission adopt the Department's revised recommendations, as discussed in greater detail herein and summarized at the end of this document. The Department is available to answer any questions that the Commission may have.

Sincerely,

/s/ MARK A. JOHNSON
Public Utilities Analyst Coordinator

NANCY A. CAMPBELL
Public Utilities Analyst Coordinator

MAJ/jl
Attachments

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Before the Minnesota Public Utilities Commission

Public Response Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E999/AA-17-492

I. BACKGROUND

On October 19, 2018, the Minnesota Department of Commerce, Division of Energy Resources (the Department or DOC) filed its *Review of the 2016-2017 (FYE16) Annual Automatic Adjustment Reports* (Report) with the Minnesota Public Utilities Commission (Commission) in the present docket.

The following electric utilities filed reply comments:

- Minnesota Power (Minnesota Power or MP);
- Otter Tail Power Company (Otter Tail or OTP); and
- Northern States Power Company d/b/a Xcel Energy, Incorporated – Electric Utility (Xcel Electric).

Based on the review of each of the above-referenced reply comments, the Department's Response Comments contain revised recommendations to the original recommendations included in the Department's Report.

The Department recommends that the Commission adopt the Department's revised recommendations, as discussed in greater detail herein and listed at the end of this document.

II. DEPARTMENT ANALYSIS – AUDITOR'S REPORTS (MP AND OTP)

A. BACKGROUND

As discussed in our October 19, 2018 Report, all electric utilities submitted auditor's reports in compliance with Minnesota Rule 7825.2820. In addition, the Commission's July 21, 2017 Order in Docket No. E999/AA-15-611, regarding the review of the 2014-2015 Annual Automatic Adjustment (AAA) Reports for all Electric Utilities, required the following in Ordering Paragraph 7:

7. In future AAA filings, Xcel, Minnesota Power, and Otter Tail must include in their independent auditors' reports the following:
 - a. comparison of the documentation in support of payments and invoices received from energy suppliers;
 - b. comparison of the base costs of power approved by the Commission to the bases used by the utility;

- recalculation of the billing adjustment charge (credit) per kWh charged to customers for purchased power for the entire applicable period by customer class;
- d. comparison of the accounting records for the revenues billed to customers for energy delivered for the relevant period to the total sales of electric energy;
- e. on a test basis, an examination of individual billings in each customer class by recalculating the automatic adjustment of charges and credits and tracing to individual customers' subsidiary records to ensure that the calculated credit or charge was correctly recorded;
- f. an examination of any corrections to [Fuel Clause Adjustment] charges or other billing errors;
- g. a reconciliation of total revenue and cost of power in the utility's general ledger; and
- h. a recalculation of any true-up, and tracing of the related revenue and expense amounts to the utility's accounting records.

As explained in our Report, the Department found that Xcel provided the above information in Part F of its Auditor's Report; however, MP's and OTP's Auditor's Reports did not address Ordering Paragraph 7. As a result, the Department recommended that MP and OTP address Ordering Paragraph 7 in their reply comments.

B. DEPARTMENT ANALYSIS

1. Minnesota Power

MP stated in reply comments that it reviewed Ordering Paragraph 7 with both its internal and independent auditors to ensure that the requirements were incorporated into the scope of work performed by its auditor. In addition, MP stated that while it did not specify in its filing that these new areas were included, the auditor's scope of work covered all relevant areas from Ordering Paragraph 7.

The Department appreciates MP's clarification that Ordering Paragraph 7 was addressed in its Auditor's Report for FYE17. As a result, the Department recommends that the Commission accept MP's Auditor's Report for FYE17. However, the Department recommends that the auditor's reports included in MP's future AAA filings clearly confirm that Ordering Paragraph 7 was incorporated into the auditor's scope of work.

2. *Otter Tail Power*

OTP stated in reply comments that, based on subsequent conversations with the Department, it now understands that the Department agrees that OTP's Auditor's Report was in compliance with Ordering Paragraph 7. The Department agrees with OTP and concludes that its Auditor's Report was in compliance with Ordering Paragraph 7 of the Commission's Order in Docket No. E999/AA-15-611. As a result, the Department recommends that the Commission accept OTP's Auditor's Report for FYE17.

III. DEPARTMENT ANALYSIS – TRANSFORMER REPORTING (XCEL ELECTRIC AND MP)

A. BACKGROUND

As discussed in the Department's Report at 19-20, the Department noted that Xcel Electric did not provide information regarding backup strategies for transformers or their policy for transformer maintenance in their FYE17 AAA Report. In addition, the Department noted that MP did not provide its policy for transformer maintenance in their FYE17 AAA report. As a result, the Department asked Xcel Electric and MP to provide this information in reply comments.

B. DEPARTMENT ANALYSIS

1. *Xcel Electric*

Xcel Electric provided its transformer backup strategies and transformer maintenance policy on pages 2-3 and in Attachment A of its reply comments. Based on our review, the Department concludes that Xcel provided the relevant information in accordance with the Commission's August 16, 2013 Order in Docket No. E999/AA-11-792. As a result, the Department recommends that the Commission accept Xcel Electric's transformer reporting for FYE17.

2. *Minnesota Power*

MP stated the following on page 3 of its reply comments:

The Company apologizes for inadvertently excluding its transformer maintenance policy in previous filings. While the Company does not have a specific written Transformer Maintenance Policy, preventive maintenance is tracked in the Company's Maximo system. Oil samples are taken annually and electrical testing is performed every 5 years except on the HVDC transformers, which are tested every 3 years. These intervals follow the recommendations of the Company's insurance provider.

The Department appreciates the additional information provided by MP and recommends that the Commission accept MP's transformer reporting for FYE17.

IV. DEPARTMENT ANALYSIS – SHERCO UNIT 3 LITIGATION UPDATE (XCEL ELECTRIC)

A. BACKGROUND

In its Report at 23, the Department stated that it would provide its analysis and recommendations regarding Xcel Electric's Sherco Unit 3 litigation after our review of Xcel Electric's forthcoming informational filings in Docket Nos. E002/GR-12-961, E002/GR-13-868, and E999/AA-18-373.

On November 2, 2018, Xcel Electric filed its Sherco Unit 3 litigation update in the above-referenced dockets and in the instant petition.

B. DEPARTMENT ANALYSIS

Xcel Electric stated the following in its November 2, 2018 filing:

As discussed in previous filings in these dockets, on November 15, 2013, the Company, along with the joint owner of Sherco 3, Southern Minnesota Municipal Power Agency, and insurers of Sherco 3, filed a joint complaint against GE (the Lawsuit). The complaint, as amended on January 27, 2014, sought to recover costs associated with the Event.

On September 20, 2018, the Company settled the Lawsuit with GE, and on October 9, 2018, the Company's claims against GE were dismissed. The settlement of the Lawsuit will result in a total payment of **[TRADE SECRET DATA HAS BEEN EXCISED]** (the Settlement Amount) to the Company (on a total company basis), which will be credited in its entirety to customers.

The Company is developing a process to provide the Settlement Amount to customers. Within 30 days of this letter, we will file additional details regarding the settlement and the Company's plan to credit the applicable portion of the Settlement Amount to our customers in Minnesota.

The Department reviewed Xcel Electric's Sherco Unit 3 litigation update provided to date. The Department will review Xcel's forthcoming additional Sherco litigation information as part of our review in next year's AAA filings in Docket No. E999/AA-18-373 (FYE18 AAA). The Department will

continue to monitor this issue to ensure that the Settlement Amount will be credited in its entirety to customers - likely in the monthly fuel clause adjustment to ensure a timely refund to customers.

V. DEPARTMENT ANALYSIS – ASSET-BASED MARGINS (XCEL ELECTRIC)

A. BACKGROUND

In our Report at 39, the Department noted that Xcel Electric's asset-based margins increased significantly from \$4.0 million in FYE16 to \$18.3 million in FYE17. The Department asked Xcel Electric to explain this increase in reply comments. The Department stated that it would provide its recommendation regarding Xcel Electric's asset-based margins after it has reviewed Xcel Electric's reply comments.

B. DEPARTMENT ANALYSIS

Beginning on page 3 of its reply comments, Xcel Electric stated that the year-over-year increase in asset-based margins was primarily driven by the addition of three new wind resources in FYE17, resulting in an increase in sales into the MISO market. In addition to the higher sales, Xcel Electric stated that its Locational Marginal Prices (LMPs) were generally higher in FYE17 than in FYE16.

Based on the above, the Department concludes that Xcel Electric has reasonably explained its increase in asset-based margins for FYE17. As a result, the Department recommends that the Commission accept Xcel Electric's asset-based margins reporting for FYE17.

VI. DEPARTMENT ANALYSIS – ANCILLARY SERVICES MARKET, 8A REAL-TIME NON-EXCESSIVE ENERGY AMOUNT - SYSTEM (XCEL ELECTRIC)

A. BACKGROUND

In our Report at 52, the Department noted that that Xcel Electric's Real-Time Non-Excessive Energy Amount – System charges for July 2016 increased significantly from \$546,921 in July 2016 to \$2,357,643 in July 2017. Xcel Electric stated the following in its Response to DOC Information Request No. 29(D):

The Real Time Non Excessive Energy Amount of \$2,357,643 in Docket No. E999/AA-17-492 is a net value comprising approximately \$200 million in gross sales and buybacks. The Real Time sale to buyback ratio increased slightly from this perspective. The increase could be attributed to a single unit that tripped offline on three different days in August 2016.

The Department recommended that Xcel Electric provide in reply comments the specific generating unit and reasons that it tripped offline on three different days in August 2016. The Department stated that it would make its recommendation regarding Xcel Electric's Real-Time Non-Excessive Energy Amount – System charges after it had reviewed Xcel Electric's reply comments.

B. DEPARTMENT ANALYSIS

Xcel stated the following on pages 3-4 of its reply comments:

When examining the data to respond to the Department's current request, we discovered that the three outages at one plant referenced in our response to IR No. DOC-29(d) occurred in August 2016 instead of July 2016. The increase between July 2015 and July 2016 Real Time Non Excessive Energy Amount can be attributed to generating unit outages at various plants in July 2016, not to three outages at a single unit. As shown in the outage report for this period, included in the AAA report as Part K, Section 4, Schedule 2, there were several units that experienced outages in July 2016, though King Unit 1 experienced more outages that month than other units. We provide as Attachment B a condensed version of the outage report comparing July 2015 outages to July 2016 outages. More unit outages occurred in July 2016 than July 2015, which led to higher Real Time Non Excessive charges in July 2016.

The Department reviewed Xcel Electric's condensed outage report contained in Attachment B of its reply comments as well as the FYE16 and FYE17 Unit Outage Information included in Part K, Section 4, Schedule 2 of Xcel Electric's reports in Docket Nos. E999/AA-16-523 and 17-492. As shown therein, there was only one outage for July 2015 but twelve forced outages in July 2016 as a result of equipment failures.¹ The Department agrees that the significant increase in forced outages explains the higher real-time non-excessive energy charges incurred in July 2016. The Department also notes that Xcel Electric's total real-time non-excessive energy charges decreased significantly from \$22,428,796.32 in FYE16 to \$8,041,460.44 in FYE17. As a result, the Department concludes that, overall, Xcel Electric's real-time non-excessive energy charges for FYE17 appear reasonable.

¹ The Department also notes that, while the cost of the forced outages increased from 0.03 percent to 0.54 percent of Xcel's system costs between July 2015 and July 2016, forced outages during FYE17 were at their lowest cost level in the last five years (0.67 percent during FYE17 compared to 1.31 percent during FYE16).

VII. DEPARTMENT ANALYSIS – ANCILLARY SERVICES MARKET, NEW RAMP PRODUCTS: DAY-AHEAD RAMP CAPABILITY AMOUNT AND REAL-TIME RAMP CAPABILITY AMOUNT (XCEL ELECTRIC)

A. BACKGROUND

The Midcontinent Independent System Operator (MISO) implemented a new Ramp Capability Product in May 2016, and with it, two new charge types: Day-Ahead Ramp Capability Amount and Real-Time Ramp Capability Amount. In its March 16, 2018 Order in Docket No. E999/AA-16-523, the Commission required Xcel Electric to report these two new charges as separate line items rather than combining them with existing Ancillary Services Market (ASM) charge types in future AAA Reports.

In our Report at 52-53, the Department noted that the instant petition was filed on September 1, 2017, before the Commission's March 16, 2018 Order. As a result, the Department understood that these two charge types were not separately listed in Xcel Electric's FYE17 initial filing. As a result, the Department recommended that Xcel Electric provide the FYE17 amounts for the two new charge types in reply comments.

B. DEPARTMENT ANALYSIS

Beginning on page 4 of its reply comments, Xcel Electric stated that:

At the Department's request, Attachment C to this Reply is an updated Part J, Section 5, Schedule 14 that shows the separate line item amounts for these two new charge types for the 2016-2017 AAA report period. We note that the two new charge types are shown on separate line items in Attachment 2, page 8 of our monthly fuel clause reports beginning with the February 28, 2018 fuel clause filing in Docket No. E002/AA-18-176. Our 2018 AAA Report filed on August 31, 2018 in Docket No. E999/AA-18-373 also shows these charge types on separate line items.

The Department reviewed Xcel Electric's Day-Ahead Ramp Capability Amount and Real-Time Ramp Capability Amount for FYE17, which totals (\$94,463.88) and (9,541.77), respectively. Based on our review, the Department concludes that Xcel Electric's Day-Ahead Ramp Capability Amount and Real-Time Ramp Capability Amount for FYE17 appear reasonable.

VIII. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

The Department reproduces the Conclusions and Recommendations section from our Report below, revised to reflect our review of the utilities' reply comments. For ease of reference, the section numbers refer to the sections in the Report, rather than the sections in these response comments.

A. SECTION II, FILING REQUIREMENTS

Based on our review, the Department concludes that Xcel, MP and OTP complied with the Commission's Ordering Paragraph 7 in Docket No. E999/AA-15-611 regarding Auditor's Reports. However, the Department recommends that the auditor's reports included in MP's future AAA filings clearly confirm that Ordering Paragraph 7 was incorporated into the auditor's scope of work.

B. SECTION III, COMPLIANCE DOCKETS

The Department recommends that the Commission accept Xcel Electric's compliance filing, including the high-level cost allocation test between wholesale and retail customers for June, July, and August of 2017. The Department recommends that the Commission continue to require Xcel Electric to report this generation cost allocation data in future AAA filings, as required by Docket No. E002/CI-00-415, Ordering Paragraph No. 2.

The Department concludes that Xcel Electric's Natural Gas Financial Instruments compliance filing complies with the Commission's Order in Docket No. E002/M-01-1953.

The Department recommends that the Commission accept Xcel Electric's Wind Curtailment compliance filing in the FYE17 AAA docket.

The Department notes that Xcel Electric's FYE17 AAA filing included additional information and analysis to address the FCA Settlement Agreement approved by the Commission in Docket No. E002/GR-05-1428. The Department was not a party to this settlement, and thus invites comments on this information from those who were parties, regarding whether there are any concerns that need to be addressed.

The Department will continue to monitor the treatment of offsetting revenues and compensation recovered by the utilities in future filings.

The Department intends to continue to monitor the IOUs' actual expenses pertaining to maintenance of generation plants, with a comparison to the generation maintenance budget from the IOUs' recent rate cases in future AAA filings. The Department will also consider ongoing outage costs on a going forward basis.

Since the Commission approved FCA reforms in Docket No. E999/CI-03-802, the Department withdrew, in its February 7, 2018 reply comments at 3 in Docket No. E999/AA-16-523, its previous recommendation regarding two possible industry standards for FCA reform.

The Department concludes that Xcel Electric complied with the 2010 Order in Docket No. E002/M-10-161 regarding WM Renewable Energy.

The Department concludes that MP provided the required reporting information in compliance with the Commission's Order in Docket No. E015/M-10-961 regarding Manitoba Hydro PPA.²

The Department concludes that the Community Solar Garden Program costs included in Xcel Electric's FCA appear reasonable.

The Department recommends that the Commission accept OTP's, Xcel Electric's, and MP's transformer reporting for FYE17.

A. SECTION IV, TOTAL FUEL COST REVIEW

The Department reviewed Xcel Electric's Sherco Unit 3 litigation update provided to date. The Department will review Xcel's forthcoming additional Sherco litigation information as part of our review of the FYE18 AAA filings in Docket No. E999/AA-18-373. The Department will continue to monitor this issue to ensure that the Settlement Amount will be credited in its entirety to customers - likely in the monthly fuel clause adjustment to ensure a timely refund to customers.

B. SECTION V, RECOMMENDATIONS FOR MISO DAY 1

The Department notes that there may no longer be a need for the MISO Day 1 reporting, since the MISO Day 1 has been in operation since 2002 and we have not seen much in the way of concerns that have negatively impacted customers. The Department will discuss with the IOU electric utilities and the consumer advocates participating in the FCA reform proceeding (Docket 03-802), whether this MISO Day 1 reporting continues to be needed.

Overall the Department concludes that the companies' responses have complied generally with all of the AAA MISO Day 1 compliance reporting requirements. The Department expects utilities to continue to work hard to mitigate costs or the effects of changes by MISO or FERC that could negatively impact Minnesota retail customers. Utilities are required to continue to show benefits of MISO Day 1 in the context of their rate cases before receiving further cost recovery of Schedule 10 costs.

² Source: Attachment No. 14 of MP's FYE17 AAA report.

C. SECTION VI, MISO DAY 2 REPORTING AND ALLOCATIONS

- The Department recommends that the Commission accept Xcel Electric's MISO Day 2 reporting and allocations for FYE17.
- The Department recommends that the Commission accept MP's MISO Day 2 reporting and allocations for FYE17.
- The Department recommends that the Commission accept OTP's MISO Day 2 reporting and allocations for FYE17.

D. SECTION VI D, ASSET-BASED MARGINS

- The Department concludes that Xcel Electric's, MP's and OTP's FYE17 asset-based margins appear to be reasonable. As a result, the Department recommends that the Commission accept Xcel Electric's, MP's, and OTP's FYE17 asset-based margin reporting.

E. SECTION VII, ANCILLARY SERVICES MARKET

- The Department concludes that Xcel Electric's FYE17 EDED, CRDFC, and Real-Time Non-Excessive Energy Amount – System charges appear reasonable. As a result, the Department recommends that the Commission accept Xcel's Electric's ASM reporting.
- The Department concludes that MP's FYE17 ASM charges appear reasonable. As a result, the Department recommends that the Commission accept MP's ASM reporting.
- The Department concludes that OTP's FYE17 ASM charges appear reasonable. As a result, the Department recommends that the Commission accept OTP's ASM reporting.

/jl