


Staff Briefing Papers

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|--------------|--|--|----------------|
| Meeting Date | January 9, 2019 | | Agenda Item *3 |
| Company | All Commission-Regulated Electric Utilities | | |
| | E-999/AA-17-492 | | |
| Docket No. | In the Matter of the Review of the 2016-2017 Annual Automatic Adjustment Reports for All Electric Utilities | | |
| Issue | Should the Commission accept the electric utilities' 2016-2017 annual automatic adjustment reports? | | |
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|  Relevant Documents | Date |
|--|-------------------|
| Dakota Electric Association – Initial Filing (Non-Public) | August 31, 2017 |
| Minnesota Power – Initial Filing (Non-Public) | August 31, 2017 |
| Xcel Energy – Initial Filing (Non-Public) | September 1, 2017 |
| Otter Tail Power Company – Initial Filing (Non-Public) | September 1, 2017 |
| Xcel Energy – Supplement to Part H (Non-Public) | October 13, 2017 |
| Minnesota Power – Revised Attachment 16 (Non-Public) | February 28, 2018 |
| Xcel Energy – Revised Part F | October 9, 2018 |
| Minnesota Department of Commerce – Report (Non-Public) | October 19, 2018 |

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 **Relevant Documents**

Date

| | |
|---|-------------------|
| Xcel Energy – Reply Comments | October 29, 2018 |
| Otter Tail Power Company – Reply Comments | October 29, 2018 |
| Xcel Energy – Sherco Litigation Update (Non-Public) | November 2, 2018 |
| Minnesota Power – Reply Comments | November 5, 2018 |
| Minnesota Department of Commerce – Response Comments (Non-Public) | November 30, 2018 |
| Xcel Energy – Sherco Litigation Update Settlement Proceeds Refund Letter (Non-Public) | December 3, 2018 |

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I. Statement of the Issues

Should the Commission accept the electric utilities' 2016-2017 annual automatic adjustment reports?

II. Introduction

The Minnesota Public Utilities Commission (Commission) conducts an annual review of the electric utilities' automatic adjustment of charges for the previous twelve-month period (i.e., the fiscal year from July 1 through June 30).¹ This review occurs after the utilities file annual automatic adjustment (AAA) of charges reports on September 1 of each year, and, after the Minnesota Department of Commerce, Division of Energy Resources (Department) submits its analysis of the AAA reports.

The utilities' AAA reports are prepared in accordance with the Commission's automatic adjustment of charges rules, i.e., Minnesota (Minn.) Rules (R.), parts 7825.2390 through 7825.2920. The AAA reports also contain compliance information required by Commission order in previous AAA dockets, and other Commission proceedings (e.g., the orders from the proceedings authorizing transfer of control of the utility transmission assets to the Midcontinent Independent System Operator (MISO),² and the orders authorizing the pass through of MISO ancillary service market (ASM) costs and revenue through the fuel clause adjustment mechanisms.)³

Annual Automatic Adjustment Reports

On or about September 1, 2017, all of the Commission-regulated electric utilities except Northwestern Wisconsin Electric Company⁴ submitted AAA reports covering the twelve-month period from July 1, 2016 through June 30, 2017 (i.e., fiscal-year 2017), in this docket.⁵

The following electric utilities submitted AAA reports:

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

¹ Minn. R., part 7825.2850. **Annual Commission Meeting.** The Commission shall annually conduct a separate meeting to review the automatic adjustment of charges reported herein.

² Docket Nos. E-002/M-00-257, E-001/PA-01-1505, E-015/PA-01-539, and E-017/PA-01-1391.

³ Docket No. E-001,015,002,017/M-08-528.

⁴ On December 18, 2001, the Commission granted Northwestern Wisconsin Electric Company (NWECA) a variance from the annual reporting requirements in the automatic adjustment rules. This variance has no expiration date. (G,E-999/AA-00-1027).

⁵ Copies of the electric utilities' fiscal-year 2017 annual automatic adjustment reports are available through the "edockets" system at (<https://www.edockets.state.mn.us/EFiling/search.jsp>)

III. Department Review of Fiscal-year 2017 (FYE17) Annual Automatic Adjustment Reports for Electric Utilities

On October 19, 2018, the Department submitted its Review of fiscal-year 2017 (FYE17) Annual Automatic Adjustment Reports for Electric Utilities (Report). The *Report* covers all of the electric utilities' AAA reports, AAA-related compliance filings, and other reports requested by the Commission in various orders.

On pages 4-5 of the *Report*, the Department summarizes the electric utilities' fuel cost projection for the next five years on a \$ per MWh basis and as a year-to-year percentage change in cost. The electric utilities' reported a wide range of fuel costs and annual percentage changes because each of the utilities' generation fleet, mix of purchase power agreements (PPAs), and other factors differ from utility-to-utility. (The utilities designated this information as non-public data.)

On pages 5-6 of the *Report*, the Department provided a comparison of actual 2017 annual energy costs on a \$ per MWh basis to the forecasts of 2017 costs on a \$ per MWh basis as provided by the electric utilities in their FYE12, FYE13, FYE14, FYE15 and FYE16 AAA reports. The Department observed that:

... while Xcel Electric and MP consistently over-forecasted energy costs by at least 7.3 percent, the forecasts generally became closer to 2017 actual annual costs, the closer to 2017 the forecasts were made.

The table below provides a summary for each utility of the total actual cost of fuel purchased during the year (including purchased power costs) to the fuel costs recovered through automatic adjustments.⁶

| Utility | Fuel Cost Recovered (\$) | Fuel Cost (\$) | Over-Recovery/(Under-Recovery) (\$) | Over-Recovery/(Under-Recovery) (%) |
|------------------------------|--------------------------|----------------|-------------------------------------|------------------------------------|
| Dakota Electric ⁷ | 147,944,508 | 149,710,574 | (1,766,066) | (1.19) |
| MP ⁸ | 166,561,049 | 166,645,477 | (84,429) | (0.05) |
| Otter Tail ⁹ | 57,559,240 | 58,637,860 | (1,078,619) | (1.87) |
| Xcel Energy ¹⁰ | 752,086,107 | 751,387,629 | 698,478 | 0.09 |

Xcel Energy was granted a variance to charge FCA rates based on the forecast of fuel costs in the upcoming month, rather than the two-month average cost per kWh required by Minnesota Rules. Xcel Energy also adjusts its rates to refund or recover, i.e. true-up, previous over- and under-recoveries of its energy costs through a monthly (2-month lag) true-up. Dakota Electric

⁶ DEA's total includes capacity in addition to fuel.

⁷ Department *Report* Attachment 4.

⁸ Department *Report* Attachment 5, page 3 of 4.

⁹ Department *Report* Attachment 6, page 2 of 2.

¹⁰ Department *Report* Attachment 7.

and Otter Tail both have an annual true-up to refund or recover previous over- and under-recoveries of their energy costs.

One of the *Report's* primary focuses is the Department's review of the pass-through and allocation of MISO costs and revenues in the utilities' fuel clause adjustment mechanisms. Throughout its *Report*, the Department focused on each company's efforts to minimize energy and transmission costs for Minnesota retail customers. Please see pp. 24 - 27 of the Department's *Report* for the Department's discussion of the effects of the MISO Day 1 markets on Minnesota ratepayers.

In Attachment 9 of the *Report*, the Department provided a comparison of each utility's average residential customer's monthly electric bill for the most recent calendar-year of 2016. As shown below in Table 2, Dakota Electric had the highest average monthly residential bill of \$87.89, followed by Otter Tail at \$82.10, Xcel Energy at \$79.17 and Minnesota Power at \$62.96.

In addition, Table 2 (below) shows the amounts in energy charges plus fuel clause adjustments that residential customers paid during calendar-year 2016. The ranking from highest to lowest average monthly amounts paid are: Dakota Electric with a 12-month average of 12.33¢/kWh, Xcel Energy with an average of 10.97¢/kWh, Otter Tail with an average of 7.99¢/kWh, and Minnesota Power with an average of 7.33¢/kWh. However, the Department noted that because utilities recover different amounts of fixed costs in their respective energy charges, this comparison is not as useful as the average residential monthly bill comparison.

| Utility | Avg. Residential Monthly Electric Bill (\$) | Avg. Residential Energy Chg. + FCA (¢/kWh) | Avg. Residential Monthly kWh usage (kWh) |
|-----------------|---|--|--|
| Dakota Electric | 87.89 | 12.33 | 635 |
| MP | 62.96 | 7.33 | 695 |
| Otter Tail | 82.10 | 7.99 | 912 |
| Xcel Energy | 79.17 | 10.97 | 635 |

Another focus of the *Report* is whether the electric utilities, accurately adjusted their energy rates to reflect changes in fuel costs and revenues related to MISO Day 2 charges including asset-based management and ASM. The Department also focused on variance analysis and volatility, by comparing costs and revenues to historical information, and allocation of costs and revenues between retail and wholesale prices.

Throughout the *Report*, the Department's analysis was comprehensive and thorough. The Department's initial recommendation is at the end of its *Report*. In subsequent filings, the Department revised its recommendations.

In its *Report*, the Department recommended the following:

- Acceptance of the utilities' MISO Day 1 reporting;
- Acceptance of the utilities' MISO Day 2 reporting;

- Acceptance of MP and Otter Tail's ASM reporting;
- Acceptance of MP and Otter Tail's Asset-based margins;
- Acceptance of the compliance filings required by Commission Order, as discussed in Section III, items A through M, of the Report;
- Acceptance of Otter Tail's transformer reporting.

In addition, the Department raised the following topics as needing additional clarification and invited response in *Reply Comments*. Specifically, the Department requested:

- MP and Otter Tail to provide the required Auditor's Report information pursuant to Ordering Paragraph (OP) 7 of the Commission's July 21, 2017 Order in Docket No. E-999/AA-15-611, regarding the review of the 2014-2015 Annual Automatic Adjustment (AAA) Report;
- Xcel Energy to provide information regarding its backup strategies for transformers and its policy for transformer maintenance;
- MP to provide its policy for transformer maintenance;
- Xcel Energy to explain the significant increase in asset-based margins from \$4 million in FYE16 to \$18.3 million in FYE17;
- Xcel Energy to provide the specific generating unit and reasons the unit tripped offline on three different days in August 2016, which resulted in increased Real-Time Non-Excessive Energy Amount – System Charges; and
- Xcel Energy to provide the amounts of the new ramping products included in the FYE17 reporting period.

In *Reply Comments*, MP, Otter Tail, and Xcel Energy provided the information requested by the Department.

In *Response Comments*, the Department agreed that the electric utilities have supplied the requested information and recommended acceptance of the various AAA reports.

IV. The Department's Request for Clarification from the Parties

A. Requested Auditor's Reports Information (MP and Otter Tail)

In Ordering Paragraph (OP) 7 of its July 21, 2017 Order in Docket No. E-999/AA-15-611, the Commission required Xcel Energy, Minnesota Power, and Otter Tail to include the following information in future independent auditors reports:

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 the *Report*, the Department found that Xcel Energy provided the above information in Part F of its Auditor's Report; however, MP's and OTP's Auditor's Reports did not address whether or not the relevant and required information had been reviewed by the auditors. As a result, the Department recommended that MP and OTP address OP 7 in their reply comments.

1. Minnesota Power

MP stated in *Reply Comments* that it reviewed OP 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 OP 7.

The Department appreciates MP's clarification that OP 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 recommended that the auditor's reports included in MP's future AAA filings clearly confirm that OP 7 was incorporated into the auditor's scope of work.

2. Otter Tail

Otter Tail stated in *Reply Comments* that, based on subsequent conversations with the Department, it now understands that the Department agrees that Otter Tail's Auditor's Report was in compliance with Ordering Paragraph 7. In response, the Department agreed with Otter Tail and concluded that its Auditor's Report was in compliance with OP 7 of the Commission's

Order in Docket No. E-999/AA-15-611. As a result, the Department recommended that the Commission accept Otter Tail's Auditor's Report for FYE17.

B. Transformer Reporting

As discussed in the *Report*, the Department noted that neither Xcel Energy nor MP provided information regarding backup strategies for transformers or their policy for transformer maintenance in their respective FYE 17 AAA Reports.

1. Xcel Energy

In *Reply Comments*, Xcel Energy provided the requested backup strategies and transformer maintenance policy on pages 2-3 and in Attachment A. The Department concluded that Xcel Energy provided the relevant information in accordance with the Commission's August 16, 2013 Order in Docket No. E-999/AA-11-792. As a result, the Department recommended 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.

In *Response Comments*, the Department recommended that the Commission accept MP's transformer reporting for FYE17.

C. Asset-Based Margins

On page 39 of the *Report*, the Department noted that Xcel Energy's asset-based margin revenue increased significantly from \$4 million in FYE16 to \$18.3 million in FYE17. The Department asked Xcel Energy to explain this increase in reply comments.

On page 3 of its *Reply Comments*, Xcel Energy 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 Energy stated that its Locational Marginal Prices (LMPs) were generally higher in FYE17 than in FYE16.

Based on the above, the Department concluded that Xcel Energy reasonably explained its increase in asset-based margins for FYE17. As a result, the Department recommended that the Commission accept Xcel Electric's asset-based margins reporting for FYE17.¹¹

D. Ancillary Services Market, 8A Real-Time Non-Excessive Energy Amount – System

On page 52 of the *Report*, the Department noted that that Xcel Energy'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 Energy stated the following in its Response to Department Information Request No. 29(D):

The Real Time Non Excessive Energy Amount of \$2,357,643 in Docket No. E-999/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.

In *Reply Comments*, Xcel Energy stated:

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

¹¹ The ALJ's Report in Xcel's 2005 Rate Case (Docket E-002/GR-05-1428) established how the amount ratepayers get credited through the FCA for asset-based margins: 100% of the MN jurisdictional share of margins from inter-system sales of excess generation (Finding 75), 80% of the MN jurisdictional asset-based margins from inter-system sales derived from ancillary service obligations, such as spinning reserves (Finding 75), and 25% of non-asset-based margins, such as trading activities.

charges in July 2016.

In *Response Comments*, the Department stated it reviewed Xcel Energy'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 Energy's reports in Docket Nos. E-999/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. The Department agreed that the significant increase in forced outages explains the higher real-time non-excessive energy charges incurred in July 2016. The Department also noted that Xcel Energy's total real-time non-excessive energy charges decreased significantly from approximately \$22 million in FYE16 to approximately \$8 million in FYE17. As a result, the Department concludes that, overall, Xcel Energy's real-time non-excessive energy charges for FYE17 appear reasonable.

E. Ancillary Services Market, New Ramp Products: Day-Ahead Ramp Capability Amount and Real-Time Ramp Capability Amount

In May 2016, MISO implemented a new Ramp-Capability Product, 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. E-999/AA-16-523, the Commission required Xcel Energy 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.

The Department noted in the *Report*, that Xcel Energy's AAA Report was filed on September 1, 2017, before the Commission's March 16, 2018 Order. As a result, these two charge types were not separately listed in Xcel Energy's FYE17 Report.

In *Reply Comments*, Xcel Energy provided an updated report showing the separate line item for the two new charge types for FYE17. In addition, Xcel Energy noted that their FYE18 Report filed on August 31, 2018 in Docket No. E-999/AA-18-373 also shows these charge types on separate line items.

In *Response Comments*, the Department indicated that it has reviewed Xcel Energy's Day-Ahead Ramp Capability Amount and Real-Time Ramp Capability Amount for FYE17 and concluded that the reported amounts appeared reasonable.

V. Staff Analysis

Staff reviewed the utilities' filings along with the various comments provided by the parties. Staff concludes that the parties' analyses addressed all the relevant issues and does not have anything further to add. However, staff does briefly mention a few items or other dockets that may impact future AAA reports, below.

A. FCA Reform

On December 19, 2017, the Commission issued its fuel clause adjustment (FCA) reform Order (Docket No. E-999/CI-03-802) establishing a new FCA process. On December 12, 2018, the

Commission issued an Order clarifying certain aspects of the FCA reform process. Some of those issues impact how future AAA Reports will be handled, for example, the Commission moved the FCA period from a fiscal-year to a calendar-year basis beginning January 1, 2020, this will necessitate the FYE19 report to encompass the July 1, 2018 through December 31, 2019 time period with the electric utilities AAA annual reports due on March 1, 2020. In addition, future reporting requirements may change based on future agreements between the parties.

B. MISO Day 1 Reporting

In the *Report*, the Department briefly discussed the potential of eliminating the MISO Day 1 reporting requirement. The Department will discuss this issue with the electric utilities and consumer advocates participating in the FCA reform proceeding (Docket No. E-999/CI-03-802), and update the Commission.

C. Sherco 3 Litigation

On November, 19, 2011, an accident at Xcel Energy's Sherburne County Generating Station (Sherco), forced the shutdown of one of its three units, Sherco 3. It remained shut down from November 2011 to October 2013.

To replace Sherco 3's output, Xcel Energy bought both replacement power and additional fuel for other Company-owned generators; these costs were passed on to ratepayers through the fuel clause.

Xcel Energy, along with the joint owner of Sherco 3, Southern Minnesota Municipal Power Agency, and insurers of Sherco 3, filed a joint complaint against General Electric Company (GE).

On September 20, 2018, Xcel Energy reached a settlement with GE resulting in a payment to Xcel Energy.

On December 3, 2018, Xcel Energy filed an update stating that it planned on returning the GE settlement payment as a credit to customers through the monthly fuel clause adjustment for the month beginning February 1, 2019.

The Commission, on December 6, 2018, issued a Notice of Comment requesting information on whether the proposed refund should be authorized and if any issues of prudence, recoverability and ratemaking treatment of additional purchased power during the plant outage remain outstanding.

VI. Decision Options

1. Accept all the electric utilities FYE17 AAA reports as filed, and subsequently amended, as being substantially complete as to Minnesota Rules 7825.2390 through 7825.2920. [Department]

and,

2. Accept the compliance filings required by Commission Order, as discussed in Section III, items A through N of the *Report*. [Department]

and,

3. Accept the utilities' MISO Day 1, MISO Day 2, asset-based margin, and ancillary services market reporting. [Department]

or,

4. Reject one or more electric utilities' FYE17 AAA reports, MISO Day 1, MISO Day 2, asset-based margin, or ancillary services market reporting.