

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger
Phyllis Reha
J. Dennis O'Brien
David Boyd
Betsy Wergin

Chair
Commissioner
Commissioner
Commissioner
Commissioner

Paul J Lehman
Manager, Regulatory Compliance & Filings
Xcel Energy
414 Nicollet Mall
Minneapolis, MN 55401

SERVICE DATE: December 20, 2012

DOCKET NO. E-002/MR-12-1150

In the Matter of Xcel Energy's Request for Approval of a New Base Cost of Energy

The above entitled matter has been considered by the Commission and the following disposition made:

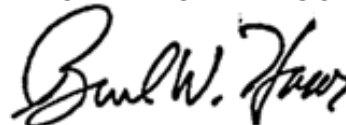
Accepted the revised base cost of energy of \$0.02729 per kWh at this point in the rate case.

If any significant adjustment to the cost of energy occurs during the Rate Case, the Commission will require that the base cost of energy be reconsidered at the appropriate time.

The Company's FCR language may be addressed in the Rate Case.

The Commission agrees with and adopts the recommendations of the Department of Commerce, which are attached and hereby incorporated into the Order. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION



Burl W. Haar
Executive Secretary



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85 7th Place East, Suite 500, St. Paul, MN 55101-2198

main: 651.296.4026

tty: 651.296.2860

fax: 651.297.7891

www.energy.mn.gov

November 27, 2012

Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Comments of the Division of Energy Resources of the Minnesota Department of Commerce**
Docket No. E002/MR-12-1150

Dear Dr. Haar:

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

Xcel Energy's Request for Approval of a New Base Cost of Energy.

The petition was filed on November 2, 2012. The petitioner is:

Paul J Lehman
Manager, Regulatory Compliance & Filings
Xcel Energy
414 Nicollet Mall
Minneapolis, MN 55401

The Department recommends **approval with clarifications** and is available to answer any questions the Commission may have.

Sincerely,

/s/ SAMIR OUANES
Rates Analyst

SO/ja
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE DIVISION OF ENERGY RESOURCES OF THE
MINNESOTA DEPARTMENT OF COMMERCE

DOCKET No. E002/MR-12-1150

I. SUMMARY OF PROPOSAL

On November 2, 2012, Xcel Energy (Xcel or the Company) submitted a miscellaneous tariff change seeking authority from the Minnesota Public Utilities Commission (Commission) to establish a new base cost of energy for interim rates in conjunction with the Company's general electric rate case filing in Docket No. E002/GR-12-961 (Rate Case).

II. BACKGROUND

The use of a fuel-adjustment clause (FCA) requires electric utilities to develop a base cost of energy when calculating their test-year revenue requirements in general rate cases.

If approved, this filing would result in an increase of the Company's base cost of energy from \$0.02703 to \$0.02729 per kilowatt-hour sales, or an increase of \$0.00026 per kilowatt-hour sales, a 1 percent increase in the base established 2 years ago.¹

¹ Xcel's current base cost of energy of \$0.02703 per kWh was approved on December 27, 2010 by the Commission in Docket No. E002/MR-10-972.

III. DEPARTMENT ANALYSIS

A. BACKGROUND

Minnesota Rules Part 7825.2400 and 7825.2600 define the “base electric cost” (base cost of energy) and other components of electric energy adjustments and address the computation and application of electric energy adjustments.

As discussed below, the Department notes that the Commission approved significant changes to the calculation and operation of Xcel’s FCA.

Historically, the fuel adjustment rules provided for a two-step procedure allowing the Company (and other electric utilities) to recover on a monthly basis their current period cost of energy. “Current period” is defined as the most recent two-month moving average used by electric utilities in computing an automatic adjustment of charges (Minnesota Rules 7825.2400, subpart 13).

First, the base cost of energy (fuel and purchased power costs in the test year) is recovered in base rates through the energy charge of each tariff that is approved by the Commission in a rate case.

Second, the fuel adjustment appearing on the monthly bills represents the amount per kWh, up or down, that the current period cost of energy deviates from the base. This deviation is known as the fuel adjustment and is allocated monthly to classes on a direct kWh-use basis through the monthly FCA filings.

In successive Commission Orders, starting with the Commission’s June 27, 2000 Order in Docket No. E002/M-00-420 and more recently the Commission’s May 4, 2012 Order in Docket No. E002/M-11-452, the Commission granted Xcel variances to Minnesota Rules 7825.2400 and 7825.2600 to:

- a) Allow the monthly FCA to be based on the use of a month-ahead forecast of energy costs;
- b) Allow the monthly FCA to be prorated based on the number of days in each billing cycle; and
- c) Allow a monthly true-up of the differences between costs and recovery.

In addition, the FCA methodology approved in the Company’s 2005 rate case proceeding reduced the former two-step energy cost recovery procedure to a one-step procedure.² The fuel adjustment is calculated in a manner that results in the cost of energy appearing on the bills to

² Commission’s February 12, 2007 Order in Docket No. E002/GR-05-1428.

reflect the unique cost of energy characteristics of each class and allows Xcel to recover all of its actual cost of energy through the FCA (that is, the base cost of energy is no longer recovered through base rates). While the new methodology still results in the determination of a base cost of energy, the base cost is further allocated to each customer class. This process results in the following: 1) the total cost of energy is shown on one line in customer bills and 2) each class has its own, class-specific, base cost of energy.

The Company's red-lined version of its FCA tariff, included in the instant filing, incorporates these changes, details the class-specific base cost of energy, and states how the FCA is calculated. The Department considers the information provided in Xcel's instant filing to meet the requirements of Minnesota Rules and Commission's Orders as provided above.

B. DEPARTMENT'S REVIEW OF XCEL'S BASE COST OF ENERGY

The Department first reviewed the revised tariff sheet for the fuel clause adjustment (Fuel Clause Rider or FCR), which is included in the Petition.

The Department notes that there is only one change to the proposed revised FCR. It is the proposed increase from \$0.02703 to \$0.02729 per kilowatt-hour sales, or a 1 per cent increase, in the base cost of energy.

The Company also proposes to revise the class-specific base cost of energy. However, Xcel has not changed the methodology used to calculate the class specific base cost of energy. The proposed change in the class-specific base cost of energy is only due to the change in the base cost of energy. Since the Company's allocation of fuel costs to classes will be one of the items to be addressed in the Rate Case, the Department agrees with Xcel's approach at this time.

Therefore, the Department focused its review on the determination of the proposed base cost of energy.

Attachment 2 in the Petition, "Base Cost of Energy Reconciliation," indicates that the Company used the same total cost breakdown for the proposed test year ending December 31, 2013 in the Petition (Attachment 1) in determining its base cost of energy as the Company uses in the corresponding Rate Case (Docket No. E002/GR-12-961). As such, it appears that Xcel used the same base cost of energy for the Petition and for the Rate Case.

The Department reviewed the above-mentioned schedule that supports and breaks out the costs that make up the base cost of energy. Attachment 1 in the Petition shows the following system base cost of energy calculation: total test year fuel cost for retail customers of \$1,119,749,000 divided by retail MWh sales of 41,035,522, which equals a system-wide base cost of energy on a kWh basis of \$0.02729 or 2.729 cents. This amount reconciles with the base cost of energy proposed by the Company in the amount \$0.02729 per kWh.

The Department also notes that the determination of the base cost of fuel should have no effect on the total rates charged to the Company's customers since Xcel recovers all of its actual cost of energy (including the base cost of energy) through the FCA.

Based on this preliminary review, the Department considers the Company's base cost of energy calculation to be reasonable at this time. The Department recommends that the Commission accept the revised base cost of energy of \$0.02729 per kWh at this time.

The Department also recommends that if any significant adjustment to the cost of energy occurs during the Rate Case, then the base cost of energy may need to be reconsidered subsequent to the Commission's decisions in the Rate Case, and reflected in final rates.

IV. DEPARTMENT RECOMMENDATION

Based on our review, the Department considers Xcel's base cost of energy calculation to be reasonable at this time. Thus, the Department recommends that the Commission accept the revised base cost of energy of \$0.02729 per kWh at this point in the rate case.

The Department also recommends that, if any significant adjustment to the cost of energy occurs during the Rate Case, then the Commission should require that the base cost of energy be reconsidered at the appropriate time.

The Department finally clarifies that the Company's FCR language may be addressed in the Rate Case.

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