

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Gregory Scott	Chair
Edward A. Garvey	Commissioner
Marshall Johnson	Commissioner
LeRoy Koppendrayner	Commissioner
Phyllis A. Reha	Commissioner

In the Matter of a Request by Xcel Energy for
Commission Approval to Continue to Amend
the Terms of its Electric Fuel Clause
Adjustment Rider

ISSUE DATE: July 17, 2002

DOCKET NO. E-002/M-02-645

ORDER EXTENDING VARIANCES AND
REQUIRING REPORTS

PROCEDURAL HISTORY

On May 6, 2002, Xcel filed its request for a one-year extension of variances previously granted the Company in 2000 and 2001 and approval to continue the forecasted fuel adjustment mechanism for another year. For those years, the Company had requested and the Commission had granted variances to allow the Company to adjust monthly bills based on a month-ahead forecast of sales and energy costs rather than on the most recent two-month moving average.¹

On June 5, 2002, the Department filed comments recommending granting the variances and allowing the forecasted mechanism for another year, with the exception of the monthly true-up. The Department recommended that the monthly true-up be changed to an annual true-up.

On June 17, 2002, Xcel filed reply comments.

The Commission met on July 11, 2001 to consider this matter.

¹ See *In the Matter of a Request by Northern States Power Company for Approval to Amend the Terms of its Electric Fuel Clause Adjustment Rider*, Docket No. E-002/M-00-420, ORDER (June 27, 2000) and *In the Matter of a Request by Northern States Power Company d/b/a Xcel Energy for Commission Approval to Continue to Amend the Terms of its Electric Fuel Clause Adjustment Rider*, Docket No. E-002/M-01-477, ORDER EXTENDING VARIANCES AND REQUIRING FILINGS (July 27, 2001).

FINDINGS AND CONCLUSIONS

I. BACKGROUND

For two years as part of a pilot fuel adjustment project, Xcel has been allowed to apply a forecasted (month-ahead) fuel adjustment methodology (as opposed to the past-two-months moving average authorized in the Minnesota Fuel Adjustment Clause rules²), to prorate the monthly fuel clause adjustment (FCA) based on the number of days in each billing cycle, and to true-up any discrepancies (over-recovery or under-recovery) on a monthly basis. In Orders granting the requested variances, the Commission found that the standards established in Minn. Rules, Part 7829.3200 for granting the variances were met.

II. XCEL'S REQUEST

This year, Xcel submitted the same variance requests allowing

- 1) the monthly fuel clause adjustment to be based on the use of a month-ahead forecast of energy costs;
- 2) a monthly fuel clause adjustment true-up factor to be included in the monthly fuel clause adjustment; and
- 3) the monthly fuel clause adjustment to be prorated based on the number of days in each billing cycle.

III. THE DEPARTMENT'S COMMENTS

The Department fully supported extending the first and third variances, but initially objected to the second, which would allow Xcel to true-up on a monthly basis. The Department argued that when uncontrollable summer costs are underestimated, the monthly true-up can inequitably spread costs from summer to fall customers, especially to high-use fall/ lower-use summer customers. The Department noted that an annual true-up is used by natural gas utilities with their purchased gas adjustment and provided charts indicating that an annual true up produces rates which are much less volatile than those experienced under the monthly method.

Subsequently, the Department withdrew its objection to extending the monthly true-up provision for another year, acknowledging the importance of giving reasonably timely price signals to ratepayers and that gathering an additional year's data and opportunity for the Company to improve its forecasting could be beneficial.

IV. COMMISSION ANALYSIS AND ACTION

Having analyzed Xcel's requests, the Commission finds that renewing these variances is warranted under the Commission's Rule Variance Rule, Minn. Rules, Part 7829.3200.

² Minn. Rules, Parts 7825.2390 through 7825.2600.

1. **Excessive Burden:** As the Commission found previously when it granted the initial variances, enforcement of the FCA rules would impose an excessive burden on Xcel and its ratepayers by providing distorted price signals. Though additional improvements can and should be made in Xcel's forecasting, the Company's forecasting in 2001 shows improvement over its performance in 2000 and in any event estimated the current period cost of energy purchased much better than the past-two-month average method described in the rules. Ratepayers benefit from better price signals over time whenever consumers use less energy at expensive peak periods.
2. **Public Interest:** Granting the variances for another year will not adversely affect the public interest. The Commission has considered this element closely in connection with the Department's initial comments regarding the monthly true-up feature and finds that the monthly true-up is consistent with the Commission's desire to provide ratepayers with timely price signals. In addition, as previously found, the public interest is adequately safeguarded by reporting requirements continued in this Order and by the Department's presence to continue to monitor the accuracy of the Company's forecasts. In addition, the Commission will formally encourage Xcel to use its best efforts to improve its forecasting, fully trusting that Xcel will do so, knowing the importance of such improvement to the Commission's evaluation of this pilot project.
3. **Standards Imposed by Law:** Granting the variance does not violate any standard imposed by law. The requirements varied were created exclusively by Commission rules and, hence, may be varied pursuant to the standards established by the Commission, Minn. Rules, Part 7829.3200.

Accordingly, the Commission will grant Xcel an additional one-year variance to the Commission's FCA rules, as requested.

Finally, in preparation for consideration of these issues again next year and in addition to the updated reports as initially required in Docket No. E-002/M-00-420, the Commission will direct Xcel to file a report on the alternative methods for true-up when it files its next (2003) request for extension of the pilot adjustment method. And to assure that the Commission has adequate time to review this matter, the Commission will direct Xcel to file its 2003 request for extension of the pilot fuel adjustment method by April 15, 2003.

ORDER

1. The Commission hereby extends the variances to the Minnesota Fuel Clause Adjustment Rules (Minn. Rules, Parts 7825.2390 through 7825.2600) to allow Xcel to
 - a. apply a forecasted (month-ahead) fuel adjustment methodology (as opposed to the past-two-months moving average authorized in the Minnesota Fuel Adjustment Clause rules),

- b. prorate the monthly FCA based on the number of days in each billing cycle, and
 - c. true-up any discrepancies (over-recovery and under-recovery) on a monthly basis.
2. Xcel shall comply, on an updated basis, with the reporting requirements from Docket No. E-002/M-00-420: 1) monthly reporting to include information on Xcel's forecasted and actual sales and costs as well as forecasted and actual portfolio of generation and purchases uses to supply load; and 2) information in the April 2003 report to isolate the effects this proposal has on the fuel clause from the effects that the inclusion of the effects of financial instruments approved in Docket No. E-0023/M-99-577 has on the fuel clause.
 3. By July 15, 2002, Xcel shall file updated tariff pages.
 4. Xcel shall make its best efforts to improve its forecasting.
 5. Xcel shall file its 2003 request for extension of the pilot fuel adjustment method by April 15, 2003.
 6. With its 2003 request for extension of the pilot fuel adjustment method, Xcel shall file a report on the alternative methods for true-up with Xcel's 2003 request for extension of the pilot fuel adjustment method. This report shall be similar to the report required in Docket E-002/M-01-477, updated to be as current to the date of filing as possible.
 7. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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