BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendrayer	Chair
Ellen Gavin	Commissioner
Marshall Johnson	Commissioner
Phyllis A. Reha	Commissioner
Gregory Scott	Commissioner

In the Matter of Xcel Energy's Petition for Approval of a Renewable Energy Rider

ISSUE DATE: January 10, 2003

DOCKET NO. E-002/M-01-1479

ORDER REQUIRING REVISED TARIFF

PROCEDURAL HISTORY

On May 7, 2002, the Commission issued its ORDER APPROVING XCEL'S RENEWABLE ENERGY RIDER WITH MODIFICATIONS in this matter. The Commission ordered Xcel Energy, Inc. (Xcel) to file a revised green-price calculation for review once it had entered into contracts with vendors to meet the projected wind energy needs of the green pricing program.

On June 12, 2002, Xcel filed a revised calculation of the renewable energy rider rate (or premium) based on the modifications ordered and the price of the wind energy in the signed contract.

On September 17, 2002, the Minnesota Department of Commerce (the Department) filed comments questioning the use of spot market capacity prices to determine the capacity credit. The Department also noted that the level of marketing expense used by Xcel to recalculate the premium was higher than that proposed in the original filing.

On October 25, 2002, Xcel accepted the Department's proposal to use a long-term avoided capacity value but argued that a higher level of marketing expense should be used in setting the premium.

The Commission met on November 26, 2002 to consider this matter.

FINDINGS AND CONCLUSIONS

I. SUMMARY OF COMMISSION ACTION

The Commission has considered the parties filings and arguments at hearing. Based on these, the Commission concludes that it will approve Xcel's tariff, as revised and consistent with the decisions made in this Order. Accordingly, the Commission will direct Xcel to file a revised tariff reflecting the Commission's decisions herein within 15 days of this Order.

In reaching this decision, the Commission addressed several issues that warrant comment in this Order:

1) how capacity costs should be calculated;
2) what the marketing costs should be;
3) how rounding should be done; and
4) how fuel clause issues should be clarified.

II. CAPACITY COSTS

Initially, Xcel proposed to use the spot market capacity prices as a proxy for wind capacity credit. The Department objected (and Xcel later agreed) that long term-avoided generation capacity costs are a better proxy and should be used. The Department cited the *Green Pricing Guide* and the opinion of its author Edward A. Holt in support of its recommendation.

The Commission agrees with the Department. At issue is the reliability of estimating the long-term value of wind. It is reasonable to believe that a utility's long-term avoided generation capacity cost is a better proxy than spot market prices to measure the estimated, long-range value of wind. Spot market prices only look into the future 18 months while the using a utility's long-term avoided generation capacity cost would reflect savings projected for the entire 25 year term of the contract under consideration.

III. MARKETING COSTS

In a filing prior to the Commission's May 7, 2002 Order, Xcel estimated annual marketing costs for the Windsource program to be $0.0032 per kWh. Subsequently, in its June 12, 2002 compliance filing, the Company revised this estimate and proposed increasing marketing expenses to $0.0051 per kWh or an increase of almost 20 cents per 100 kWh.

It is understood that marketing expenditures during the start-up years of a five year marketing program will be higher than the average for the five years. However, the Company requested the five-year average in its initial filing and no circumstances have been shown to make that level unreasonable. Using a five-year average (the same level each year) is preferable because it contributes to rate continuity, which is valued by customers.

IV. ROUNDING THE GREEN PREMIUM

Adding the agreed upon capacity credit for wind to the 5-year average estimated marketing costs produces a sum \$2.03 per 100 kWh. Since a reasonable rounding of such a number would be acceptable, the question is whether to round it up to \$2.05 per 100 kWh or, as the Department suggested, down to \$2.00 per 100 kWh. Both figures are reasonable. From a strictly arithmetic standpoint, \$2.05 would be correct when rounding to the nearest \$0.05 and \$2.00 would be correct when rounding to the nearest \$0.10, with the latter approach arguably being the more common.

Other considerations are also involved, however. Green electricity is a new product whose acceptance has the potential to benefit all rate payers. Keeping the premium for green electricity as low as possible (while still allowing reasonable recovery of its costs as required by statute) will contribute to its public acceptance. In addition, a \$2.00 premium is a clearer, more communicable number than \$2.05 from an advertising standpoint. Finally, Minn. Stat. § 216B.03 states in part: "Any doubt as to reasonableness should be resolved in favor of the consumer." In these circumstances, as between the two figures and methods (rounding up to \$2.05 and rounding down to \$2.00) the Commission will approve the rounded down (lower) number: \$2.00 per kWh.

V. FUEL CLAUSE CLARIFICATION

Xcel sought clarification that the language of the Commission's May 7, 2002 Order exempts to entire fuel clause rider and does not simply try to segregate the fossil fuel components of the fuel clause rider. The Company filed revisions to its voluntary renewable rider and to its fuel clause adjustment tariffs to reflect this change as clarified. The Department agreed with the Company's clarification.

The Commission finds that Xcel's interpretation of the Commission's May 7, 2002 Order is reasonable and will adopt the Company's proposed clarification.

ORDER

1. Within 15 days of this Order, Xcel shall file a revised tariff reflecting the decisions in this Order:

    - the long-term avoided generation capacity costs are a better proxy for a wind capacity credit in this case than the spot market capacity prices initially proposed by the Company and shall be used;

    - the level of marketing expenses for the calculation of the premium should be \$0.32 per 100 kWh, as requested by Xcel in its original filing in this docket, and shall be used;

- the premium shall be rounded down, as proposed by the Department, to $2.00 per 100 kWh;

- the Commission hereby adopts Xcel's proposed clarification that the Commission's May 7 Order in this docket exempts the portion of a customer's load purchased under the voluntary renewable energy from the entire fuel clause rider;

2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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