

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendraye  
Ellen Gavin  
Marshall Johnson  
Phyllis A. Reha  
Gregory Scott

Chair  
Commissioner  
Commissioner  
Commissioner  
Commissioner

In the Matter of Northern States Power  
Company d/b/a Xcel Energy's Fuel Clause  
Adjustment, Petition for Approval of Base Cost  
of Energy Revision and Compliance Filing

ISSUE DATE: June 4, 2003

DOCKET NO. E-002/M-02-2097

DOCKET NO. E-999/CI-03-802

In the Matter of an Investigation into the  
Appropriateness of Continuing to Permit  
Electric Energy Cost Adjustments

ORDER APPROVING PROPOSAL,  
REQUIRING COMPLIANCE FILING, AND  
OPENING INVESTIGATION INTO THE  
CONTINUING USEFULNESS OF FUEL  
CLAUSE ADJUSTMENTS FOR ELECTRIC  
UTILITIES

**PROCEDURAL HISTORY**

On November 1, 2002, the Commission issued an Order requiring Xcel Energy to file a proposal to revise and reallocate the base cost of energy used in its fuel clause adjustment rider on the basis of updated cost and usage information. This requirement was one of several imposed during a comprehensive investigation into the impact of Xcel's rate design on its demand-side management and conservation goals.<sup>1</sup> The Company made the required filing on December 2, 2002.

On March 5, 2003, the Department of Commerce (the Department) filed comments. The Department recommended approving the Company's proposal and opening an investigation into the continued usefulness of the Company's fuel clause adjustment.

On March 14, 2003, Xcel filed reply comments opposing an investigation into the continued usefulness of the fuel clause rider and urging that any investigation opened be industry-wide instead of Xcel-specific.

---

<sup>1</sup> In the Matter of an Investigation into Using Rate Design to Achieve the Demand-Side Management Goals of Xcel Energy, Docket No. E-002/CI-01-1024, ORDER ADDRESSING ISSUES BEYOND XCEL'S RESIDENTIAL TIME OF USE PILOT PROGRAM (November 1, 2002).

On May 13, 2003, the Minnesota Energy Consumers (MEC) filed a request for a variance to permit them to file comments after the deadlines set in the rules of practice and procedure, Minn. Rules 7829.1400. MEC also asked the Commission to take the following actions:

- (a) approve Xcel's proposal;
- (b) grant limited discovery regarding the Company's calculations and its underlying data;
- (c) decline to open an investigation into the continuing usefulness of the fuel clause adjustment;
- (d) require Xcel to separate the fuel clause adjustment from other automatic rate adjustments on customers' bills;
- (e) require Xcel to adjust the base cost of energy annually from this point forward;
- (f) require Xcel to refine its fuel clause adjustments to include both on-peak and off-peak components and to reflect ongoing changes in usage patterns by customer class and, where feasible, by individual customer.

On May 22, 2003, the matter came before the Commission. The Department of Commerce, Xcel, MEC, and International Paper Company appeared. International Paper Company emphasized that seemingly small discrepancies between usage and rate responsibility can have significant rate impacts for paper mills and other large industrial customers.

## **FINDINGS AND CONCLUSIONS**

### **I. Introduction**

The fuel clause adjustment is a mechanism that permits electric utilities to automatically adjust their rates to pass through changes in the cost of fuel or purchased power. The Legislature authorized the Commission to permit fuel clause adjustments in Minn. Stat. § 216B.16, subd. 7, and all Minnesota's rate-regulated electric utilities currently use them. The utilities adjust their rates monthly without prior Commission review; they then file detailed monthly and annual reports, which are reviewed for accuracy and prudence.

These automatic rate adjustments are intended to make rates more accurate and reasonable and to conserve regulatory and utility resources. Since fuel and purchased power costs can fluctuate significantly between rate cases, building these costs into non-adjustable rates can cause significant, recurring mismatches between expenses and rates. It can also strain utility and regulatory resources by forcing frequent rate cases and earnings investigations to address changes in the cost of fuel and purchased power.

Fuel clause adjustments reflect, on a per kilowatt hour basis, deviations from the base cost of energy established in the utility's most recent general rate case. Also, rates for each customer class include an energy cost component calculated in the general rate case by first determining

system-wide costs for fuel and purchased power and then allocating these costs between customer classes. The allocation formula is necessarily complex, with total and proportionate numbers of customers per class, total and proportionate class usage levels, and total and proportionate on-peak and off-peak class usage levels among the most significant inputs.

Xcel has not had a general rate case since 1993, when the current base cost of energy was set and customer rates were designed. In the ten intervening years, the numbers and proportions of customers in each class have changed, usage patterns have changed, and the costs of fuel and purchased power have risen above the base cost of energy established in that rate case. Since fuel and purchased power costs have risen significantly above the base cost of energy, a larger portion of energy costs are being collected through the fuel clause adjustment without regard to the rate design considerations under which energy costs were allocated to the rates of each customer class in the rate case.

The Company cannot file a general rate case to address these changes, however, because under the terms of stipulations approved in its last merger proceeding, it cannot file a rate case until 2006.<sup>2</sup> Xcel therefore proposes a stand-alone revision to the base cost of energy for each customer class, using the allocation formula approved in its last rate case but using updated inputs.

The Company's preliminary calculations show that revising the base cost of energy would have rate impacts of plus or minus 1% on all customer classes except Real-Time-Pricing customers, who would receive a 4.5% rate reduction. The Company proposes to make a compliance filing 30 days from the date of this Order setting forth its final calculations and rate impacts by customer class.

## **II. Variance Granted**

The Minnesota Energy Consumers asked the Commission to vary the time lines of Minn. Rules 7829.1400 to permit acceptance of their late-filed comments. No one opposed this request. Under Minn. Rules 7829.3100, the Commission may vary the time lines of the rules of practice and procedure for good cause shown.

The Commission will grant the variance, finding that Minnesota Energy Consumers' need to retain new counsel for this case was good cause for delay and that the delay did not prejudice any party.

## **III. Proposal Approved**

Given the unique facts of this case, the Commission concurs with the parties that Xcel's proposal to revise its base cost of energy – and by extension, its monthly fuel clause adjustment – is fair, reasonable, and in the public interest.

---

<sup>2</sup> In the Matter of the Application of Northern States Power Company for Approval to Merge with New Century Energies, Inc., Docket No. E,G-002/PA-99-1031, ORDER APPROVING MERGER, AS CONDITIONED (June 12, 2000).

First, it appears from the preliminary data filed by the Company that the continued use of the base cost of energy established in the last rate case and the 1993 inputs in the formula used to allocate fuel costs between customer classes is producing inequitable results in some cases. Customer counts, usage levels, and usage patterns have shifted within and between customer classes over the past ten years. While the rate impacts of these shifts have not been significant for most customers, they have been significant for a few.

International Paper, for example, stated at hearing that updating the inputs in the allocation formula and updating and reallocating the base cost of energy would give that company rate relief equal to the cost of maintaining 20 to 30 full-time positions. Clearly, this sort of discrepancy between the original, intended impact of the allocation formula and its current, practical impact merits concern.

Second, since Xcel cannot file a rate case to update its base cost of energy, the only way to address such discrepancies would be through the stand-alone adjustment to the base cost of energy and tariffs that the Company proposes.

Third, the stand-alone rate adjustment proposed is consistent with the findings and conclusions in Xcel's last rate case; the Company would simply continue applying the class cost allocation formula approved there, using updated inputs. The class cost allocation formula underwent rigorous scrutiny in the rate case and was found to be just and reasonable; it would continue to be just and reasonable with updated inputs.

Fourth, while single-issue rate adjustments are disfavored and rare, there is statutory authority for updating fuel and purchased power costs outside the rate case process. Here, the statute explicitly authorizes the type of single-issue rate adjustment contemplated.<sup>3</sup>

Finally, the compliance filing setting forth the Company's final calculations and rate impacts by customer class will act as a fail-safe, protecting ratepayers against any unforeseen or unintended consequences of the proposed rate adjustment, and offering the Commission another opportunity to examine the proposal should such consequences materialize. The Commission will establish a 30-day comment period on the compliance filing to ensure that it is carefully examined and that any concerns it raises are addressed.

For all these reasons, the Commission will approve the Company's proposal, contingent upon the compliance filing disclosing no need for further analysis.

---

<sup>3</sup> Minn. Stat. § 216B.16, subd. 7.

#### **IV. Compliance, Disclosure, and Related Issues**

MEC proposed requiring Xcel to refine its fuel clause adjustments by (a) including both on-peak and off-peak components; (b) reflecting ongoing changes in usage patterns by customer class and, where feasible, by individual customer; and (c) adjusting the base cost of energy annually. The Commission will not require further refinements to the fuel clause at present, especially in light of its decision to open an investigation into the fuel clause adjustment's continuing usefulness as a regulatory tool.

MEC also recommended requiring Xcel to change the format of its customer bills to separate the fuel clause adjustment from other automatic rate adjustments. The Commission agrees that this would be helpful and will so order. While consolidating different automatic adjustments and listing them under a single label was helpful in the past, as the Legislature has permitted or mandated more automatic adjustments, the single label has become less and less informative. Separating the fuel clause adjustment will help make bills more coherent to customers.

#### **V. Investigation Opened**

Finally, as noted above, the Commission concurs with the Department that this is an appropriate time to open a proceeding to explore the continuing usefulness of the fuel clause adjustment as a regulatory tool. The Commission also concurs with Xcel that this proceeding should be industry-wide, not company-specific.

While the advantages of permitting fuel clause adjustments are widely understood and have come to be taken for granted, their disadvantages have not been carefully examined since their initial adoption. Furthermore, since that time, the kinds of costs recovered through the fuel clause have significantly changed.

Purchased power costs and the costs associated with the practice of "hedging," for example, are very different from the straightforward fuel costs the fuel clause was originally designed to recover. As the Department notes in its comments, these new costs may pose different issues in terms of risk management, price signals, and oversight and accountability.

The Commission will therefore open an industry-wide investigation, under the direction of its staff, to examine the continuing usefulness of the fuel clause adjustment.

### **ORDER**

1. The proposal of Xcel Energy to revise and reallocate the base cost of energy used in its fuel clause adjustment rider is hereby approved, contingent upon approval of the compliance filing required below.

2. The request of Minnesota Energy Consumers for a variance to the time lines of Minn. Rules 7829.1400 is hereby granted.
3. Within 30 days of the date of this Order, Xcel shall make a compliance filing that includes the items set forth below:
  - (a) an update of the record reflecting the finalized 2003 budget;
  - (b) updated tariff pages;
  - (c) proposed customer notice(s);
  - (d) a detailed schedule calculating the new base cost of energy for application on a going-forward basis; and
  - (e) a plan for separating the fuel charge adjustment and the resource adjustment on customers' bills.
4. Comments on the compliance filing shall be filed within 30 days of the date the compliance filing is made.
5. The Commission hereby opens an investigation into the continuing usefulness of the fuel clause adjustment as a regulatory tool, In the Matter of an Investigation into the Appropriateness of Continuing to Permit Electric Energy Cost Adjustments, Docket No. E-999/CI-03-802.
6. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar  
Executive Secretary

(S E A L)

This document can be made available in alternative formats (i.e., large print or audio tape) by calling (651) 297-4596 (voice), (651) 297-1200 (TTY), or 1-800-627-3529 (TTY relay service).