

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendrayner
Marshall Johnson
Ken Nickolai
Thomas Pugh
Phyllis A. Reha

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of a Petition by Northern States
Power Company d/b/a Xcel Energy for
Approval of its Renewable Development Fund
Tracker Account Report, True-Up and 2006
Rate Rider Factor

ISSUE DATE: January 27, 2006

DOCKET NO. E-002/M-05-1570

ORDER APPROVING RDF RATE RIDER
FACTOR, ACCEPTING COMPLIANCE
FILING, AND REQUIRING FILINGS

On September 30, 2005, Xcel filed its second annual Renewable Development Fund (RDF) report, in the current docket. The matter was assigned to this docket, E-002/M-05-1570. In its report, Xcel updated its RDF tracker account, sought approval to include specific RDF costs in the tracker account, and sought approval of a new recovery level for the monthly RDF rate adjustment. The recovery level is based on both actual and forecasted RDF related costs.

On October 31, 2005, the Department filed comments.

On November 10, 2005, Xcel filed reply comments.

On December 16, 2005, the Department filed supplemental comments.

On December 28, 2005, Xcel filed supplemental comments.

The Commission met on January 12, 2006 to consider this matter.

FINDINGS AND CONCLUSIONS

I. Xcel's Petition

A. Renewable Development Fund (RDF) Tracker Account

Xcel's petition included schedules reflecting the projected 2006 activity within the RDF tracker account, the true-up of actual to forecast expenses that have occurred within the tracker account over the past year, and a proposal for a rate adjustment level to recover projected and true-up amounts. The proposed rate adjustment is set to collect \$25.7 million over calendar year 2006. This amount reflects both remaining costs associated with the first RDF funding cycle, and the projected costs associated with the new second-round projects.

Xcel's tracker report showed actual expenditures and recovery with true-up, for the period February 2003 to December 2004. The tracker report also shows the 2005 actual costs and revenues through August 2005, and a projection of tracker account activity from September through December 2005. Based on this information, the 2006 RDF adjustment will include the un-recovered tracker account balance of \$114,543.

Xcel projected 2006 calendar-year RDF expenditures to be \$27,980,636. According to Xcel, the primary costs are associated with the implementation of second-round grant contracts.

B. 2006 RDF Rate Adjustment

Xcel proposed a 2006 RDF rate adjustment of \$0.000833 per kWh to be reflected in the determination of the monthly "Resource Adjustment" applied to customers' bills, corrected in reply comments to \$0.000829 per kWh.

C. Compliance Filing

Pursuant to the Commission's June 11, 2004 Order in Docket No. E-002/M-03-2018 and the Commission's December 23, 2002 Order in Docket No. E-002/M-00-1583, Xcel included certain required compliance information with its RDF tracker report filing. The required information, Attachment 4 of Xcel's petition, shows the amounts disbursed and recovered from customers for each RDF project from project initiation through August 2005.

D. Customer Notification and Billing

Xcel explained that the RDF rider is not shown as a separate calculation on customers' bills, but is contained within the Resource Adjustment line on the customers' bill. The Company proposed language for the notice on customers' bills on the first month the new RDF rate adjustment takes effect. However, the Company stated that it would work with the Commission's Consumer Affairs Office (CAO) to finalize the wording of the customer notice.

II. RDF Rate Rider Factor, Compliance Filing, and Tracker Report and Tariff Sheets

The Department reviewed Xcel's tracker report activity in 2003 and 2004, including 1) total RDF expenses, allocation of expenses to the Minnesota jurisdiction, 2) fuel clause adjustment (FCA) recovery, and 3) expenditures to be recovered through the rider. The Department found Xcel's reported amounts to be reasonable.

The Department also reviewed Xcel's tracker report activity in 2005, including actual results for January to August, and forecasts for the period September to December. The Department found these amounts, as reported by Xcel, to be reasonable as well.

The Department reviewed Xcel's true-up calculation for the period (through December 2005) and found it to be reasonable.

The Department concluded that using the same administrative cost allocator in 2006 that was used in 2004 and 2005 is reasonable since the Company is still operating under the second RDF cycle.

The Department indicated that Xcel complied with the filing requirements for the annual RDF tracker report (see the Commission's December 23, 2002 Order, in Docket No. E-002/M-00-1583, Ordering Points 2 and 3).

Finally, the Department reviewed Xcel's calculation of the RDF rider rate using Xcel's assumptions of recoverable RDF expenditures and sales forecast. The Department concluded that all Xcel's calculations seemed reasonable except the assumption of two future payments to the Crown Hydro project in 2006. The Department stated that until more information on the likelihood of the payment to Crown Hydro is available, the Commission should not approve an RDF rate rider level which assumes payment. The Department therefore recommended the Commission instead approve a rate adjustment factor of \$0.000794 per kWh, beginning January 2006.

Xcel initially objected to the Department's recommendation to remove the projected payments to Crown Hydro from the calculation of the rate rider. Xcel argued it had no basis to dispute the scheduled time line for construction provided by Crown Hydro. For this reason, Xcel initially recommended that the projected 2006 RDF expenditures include two payments to the Crown Hydro project and be set by the Commission at a level of \$0.000829 per kWh.

In its supplemental response, however, Xcel accepted the Department's recommendation to remove any payment to Crown Hydro from the calculation of the 2006 RDF rate rider factor. The Company also agreed that the Department's recommended RDF factor of \$0.000794 per kWh for 2006 is correct.

Based on the Department's recommendation and its own review, the Commission will 1) approve an RDF rate rider factor of \$0.000794/kWh for 2006 (to be in place until the Commission approves a new rate level for the rider), 2) accept Xcel's compliance filing included with the tracker report, and 3) require Xcel to file a revised and corrected tracker report and tariff sheets within 30 days of the Commission Order in this matter.

III. Remaining Payment Milestones in Crown Hydro Contract

On April 3, 2002, the Commission issued an Order in Docket No. E-002/M-00-1583 approving the selection of the Crown Hydro project for RDF funding in Cycle I, and approving a grant of \$5.1 million for the project. The project, as initially proposed, was a 3.2 MW hydro-electric generation facility located entirely within the Mill Ruins Park in Minneapolis. Xcel evaluated the project as a Category A project (i.e., a project that will result in the actual development of new commercially viable renewable resources). The project proposal included a commercial operation date of December 2002, and a final completion date of April 2003.

On May 6, 2002, the Commission issued an Order approving the grant contract for the Crown Hydro project in Docket No. E-002/M-00-1583. The timetable for the project, as provided for in the grant contract, included a completion and startup date of June 30, 2003.

On May 27, 2004, Xcel filed a letter in Docket No. E-002/M-00-1583 explaining that, since grant contract and power purchase agreement (PPA) approval, the project had met the first three milestones in the grant contract and had been paid about \$1.5 million. The letter indicated that for the project to proceed, Crown Hydro needed approval of a lease from the Minneapolis Park and Recreation Board. On May 19, 2004, the Board denied approval of the project's petition for the lease. Xcel indicated that, at that time, there were no additional payments scheduled; the next

milestones were dependent on lease approval, which had not occurred. Xcel has disbursed no RDF funds to the project since 2003. Xcel has continued to report on the project in its annual and quarterly status reports.

In its October 21, 2005 quarterly report, Xcel states that Crown Hydro is pursuing a dual track strategy with respect to the project's location. The first location option, within the Crown Roller Mill building, will require an agreement with representatives of the Crown Roller Mill building, as well as an agreement with the Minneapolis Park and Recreational Board with respect to the issue of easements or other agreements to gain access to and from the Mississippi River in the near future. The second option, to locate the project entirely within the Mill Ruins Park, requires the use of eminent domain to acquire project land. This option would require that the Federal Energy Regulatory Commission (FERC) Order dismissing Crown Hydro's amendment, to locate the project entirely within the Mill Ruins Park and to use eminent domain to acquire project land, be reversed by the Eighth Circuit Court of Appeals.

The Department expressed concern that Xcel might make additional payments to Crown Hydro even though the project was not progressing and Crown Hydro had not adequately met payment milestones.

The Department noted that the Company has made assurances that "the remaining 5 milestones connected to grant payment are all construction related and cannot proceed without site control." The Department stated that it understood this statement to mean that no payments will be made to Crown Hydro before all needed permits are approved.

The Commission finds that clarity on this point is appropriate. The Commission will therefore clarify that it understands Xcel's assurance to be that the remaining payment milestones under the Crown Hydro grant contract are all construction related and cannot proceed without site control and before all needed permits are approved.¹

IV. Customer Notification and Billing

In its petition, Xcel explained that the RDF rider is not shown as a separate calculation on customers' bills, but is contained within the Resource Adjustment line on the customers' bill. The Company proposed language for the notice on customers' bills on the first month the new RDF rate adjustment takes effect and stated that it will work with the Commission's Consumer Affairs Office (CAO) to finalize the wording of the customer notice.

The Commission will affirm Xcel's expressed intent to work with the CAO to finalize the wording of the customer notice.

¹ This understanding appears consistent with Xcel's statement in its RDF status report filed January 31, 2005 in Docket No. E-002/M-00-1538:

Before Crown Hydro reaches their next milestone all major contingency issues will have to have been resolved. These issues include securing the site, access for water to the site, updating FERC requirements including environmental assessments, etc.

ORDER

1. The Commission hereby approves an RDF rate rider factor of \$0.000794/kWh for 2006, effective until the Commission approves a new rate level for the rider.
2. The Commission accepts Xcel's compliance filing included with the tracker report.
3. Within 30 days of this Order, Xcel shall file a revised and corrected tracker report and tariff sheets.
4. The Commission understands Xcel to be stating that the remaining payment milestones under the Crown Hydro grant contract are all construction related and cannot proceed without site control and before all needed permits are approved.
5. Xcel shall work with the Commission's Consumer Affairs Office to finalize the wording of the customer notice on bills describing the change in the RDF rate rider adjustment.
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 651-201-2202 (voice) or 1-800-627-3529 (MN relay service)