

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of the Petition of Northern States
Power Company d/b/a Xcel Energy for
Approval of 2007 Project Eligibility, TCR Rate
Factors, and RCR Compliance Filing

ISSUE DATE: March 29, 2007

DOCKET NO. E-002/M-06-1505

ORDER MAKING DETERMINATION OF
TCR PROJECT ELIGIBILITY, 2007 TCR
ADJUSTMENT RATES, NOTICE AND
ANNUAL RCR COMPLIANCE REPORTS

PROCEDURAL HISTORY

On August 1, 2006, Northern States Power d/b/a Xcel Energy (Xcel or the Company) filed a petition requesting approval of a transmission cost recovery (TCR) rider. The TCR is intended to replace the existing renewable cost recovery (RCR) rider and reflect changes required by Minn. Stat. § 216B.16, subd. 7(b) adopted during the 2005 legislative session.

On October 27, 2006, Xcel filed its petition requesting approval to implement a 2007 TCR rider adjustment factor, under the approved TCR rider mechanism, to be included in the resource adjustment included on customer bills.

On January 10, 2007, the Department filed comments, recommending approval of the Company's request, with the modification that Xcel reduce the 2007 recovery under the rider to reflect the inclusion of \$1.6 million of wholesale revenue.

On February 1, 2007, the Company filed reply comments, indicating disagreement with the modifications proposed by the Department, and acknowledging an error affecting the amount to be recovered. On February 21, 2007, the Company filed supplemental comments, including a copy of an opinion prepared by an external consultant.

On March 8, 2007, the Commission met to consider the matter.

FINDINGS AND CONCLUSIONS

I. Factual Background

On November 20, 2006, the Commission issued its *Order Approving Transmission Cost Recovery Rider* in Docket No. E002/M-06-1103, approving Xcel's proposed tariff for the TCR rider mechanism with the condition that Xcel maintain a separate tracker account for projects approved under the renewable cost recovery statute, and those approved under the transmission cost recovery statute.¹ Here, Xcel has requested approval to implement a 2007 transmission cost recovery rider adjustment factor, under the previously approved mechanism, to be included in the resource adjustment included on customer bills.

II. Positions of the Parties

A. Xcel

In its petition, Xcel requested recovery for five projects² under the TCR statute, Minn. Stat. § 216B.16, subd. 7, as well as one project under the RCR statute, Minn. Stat. § 216B.1645. The Company submitted a summary of each project, an implementation schedule, and cost estimates. The Company also submitted its compliance filing and true-up report for its RCR rider.

In the petition, the Company estimated capital expenditures for the projects at approximately \$217 million, with an estimated revenue requirement for 2007 of \$15.6 million. The Company listed the activity under its previous RCR rider, and calculated an estimated over-recovery of approximately \$334,000 at year-end 2006.

The Company proposed TCR adjustment factors designed to collect the originally requested revenue requirement of \$15.6 million for 2007, beginning January 1, 2007. Xcel stated that it would make a compliance filing within ten days of the Commission's decision, recalculating the final TCR factors to recover the approved revenue requirement for 2007 over the remaining months of 2007.

Finally, the Company reported that it did not include an open access transmission tariff (OATT) revenue credit in calculating the 2007 TCR adjustment, as this is the first year of the adjustment. The Company explained that it will apply the wholesale revenue credit, but had not done so for 2007.

¹ The Commission granted the Company approval to recover costs for projects under the RCR and TCR statutes in a single TCR Rider.

² The Commission approved these projects in Docket No. E-002/CN-01-1958, the wind certificate of need docket, to develop additional wind generation resources in the Buffalo Ridge area.

B. The Department

Following review of Xcel's filing, the Department recommended that the Company include a revenue credit of \$1.6 million to represent wholesale revenues for 2007 for the portion of the costs attributable to wholesale customers. The Department further recommended that:

- the Commission approve the petition for the 2007 TCR project eligibility, with the inclusion of a wholesale revenue credit of \$1.6 million;
- the Commission require Xcel to recalculate its TCR rates incorporating a revenue credit of \$1.6 million;
- the Company verify that it did not include any of its land capital expenditures related to these projects in its recent electric rate case;
- the Commission determine that the inclusion of land in the TCR rider is appropriate; and
- the Commission approve the RCR rider compliance filing.

C. Xcel's Response

Xcel disagreed with the Department's recommendation to include \$1.6 million of estimated wholesale revenue in the 2007 TCR rate. Xcel argued that including this credit in the 2007 TCR rate would result in crediting customers for revenues not actually collected in 2007.

Xcel addressed the Department's request to verify that its land capital expenditures related to the instant projects were not included in its last electric rate case. Xcel verified that the 2006 rate case test year had in fact included a revenue requirement of \$839,830 for TCR projects in Minnesota, and indicated that it would reduce its request in the instant docket accordingly.

The Company also stated that it had hired an external consultant to conduct an audit to review the accuracy of the requested TCR adjustment for 2007. In supplemental comments filed February 21, 2007, Xcel provided a copy of the opinion issued by its external consultant.

III. Commission Analysis and Action

The crux of the controversy before the Commission involves the question of whether the statutes (Minn. Stat. § 216B.16, subd. 7b(b)(5) and § 216B.1645) anticipate that retail customers should bear the cost of the funds attributable to serving the wholesale customers while waiting for recovery from MISO.

The Company espouses a long view in reviewing the present controversy. It urges the Commission to find that the implementation issue will only affect the first year the new tariff will be in effect, and that things will thereafter sort themselves out fairly to both wholesale and retail customers.

The Commission recognizes, however, that to acquiesce in the Company's request would in effect make retail customers become the banker for wholesale customers, who, by virtue of the MISO constraints, are one year behind in paying their bills – or, in other words, require retail customers to front the bill for wholesale customers' use of these transmission projects for the first year.

Minn. Stat. § 216B.16, subd. 7b(b)(5) provides that project costs must be allocated appropriately between wholesale and retail customers. Here, the Commission finds that the Company's proposed practice runs afoul of this prescript. The Commission agrees with the Department, and will require the Company to include a revenue credit representing estimated wholesale revenues for 2007 of \$1.6 million.

ORDER

1. The Commission approves the 2007 transmission cost recovery project eligibility with the inclusion of a wholesale revenue credit of \$1.6 million.
2. Xcel shall recalculate its TCR rates from the original \$15.6 million to approximately \$13.1 million – such reduction to reflect the correction of an \$839,830 error, and to include estimated wholesale revenues of approximately \$1.6 million. Implementation of the recalculated rates shall be effective the first day of the second calendar month after the date of this Order.
3. The Commission approves the eligibility of the projects for recovery through the TCR, including the inclusion of land.
4. The Commission approves the RCR compliance filing.
5. Xcel shall file its compliance documents incorporating the decisions made herein within 10 days of the date of this Order.
6. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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