

STATE OF MINNESOTA  
BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION  
121 Seventh Place East, Suite 50  
St. Paul, Minnesota 55101-2147

In the Matter of the Petition of Northern States Power Company, a Minnesota corporation, Regarding the 2010 Renewable Energy Standard Cost Recovery Rider and 2009 RES Tracker Report	MPUC Docket No. E-002/M-09-1083
---	---------------------------------

**COMMENTS of the MINNESOTA CHAMBER OF COMMERCE**

The Minnesota Chamber of Commerce (“Chamber”) appreciates the opportunity to comment on the petition made by Northern States Power Company (“Xcel”) to the Minnesota Public Utilities Commission (“Commission”), requesting approval of the 2010 Renewable Energy Standard Cost Recovery Rider (“RES Rider”) Rate Adjustment Factor and 2009 RES Tracker Report.

The Chamber represents over 2,500 businesses throughout the state of Minnesota, a significant portion of which are located within the Xcel’s service territory. As a result, many Chamber members will be paying for the RES Rider proposed by Xcel. The Chamber deals with statewide issues at a policy level, as well as concerns businesses have with respect to doing or continuing to do business within the state, such as having competitively priced, reliable and environmentally sound energy rates. Energy is one of the Chamber’s focal points in terms of making Minnesota’s business environment more competitive relative to other states and nations.

Xcel petitioned the Commission on September 18, 2009 for recovery of investments made to its system under Minnesota Statutes §§ 216B.1691 and 216B.1645. Xcel proposes to recover \$44,397,328 in revenues, an increase of over \$23,500,000 as compared to 2009 and more

than doubling the kWh charge – an energy-only charge. The focus of our comments will be to address the inequities of the energy-only charge.

No party has ever refuted that at least *some* portion of these renewable resources are attributable to demand. Therefore, recovery should appropriately be through a demand charge, in part. The Chamber proposes that costs be recovered from each class (inter-class allocation) based on an allocation that is the same as the Stratification method, production plant split used in Xcel's recent rate case – **32% to Demand and 68% to Energy**. In addition, the Chamber proposes that the rate design reflect an energy and demand charge for demand metered customers to ensure cost recovery aligns with cost causation within the C&I class.

While the recent trend has been to avoid rate design in riders, by using an energy-only charge, rate design still occurs. Yet this rate design is undeniably flawed, as all parties acknowledge that at least *some* allocation to demand is appropriate if these same assets are included in base rates. Using system production plant average percent split for energy and demand is straight forward, consistent with how other generation plant costs are allocated and more accurate than allocating all costs to energy. Reflecting this cost allocation by establishing separate energy and demand charges (for demand metered customers) in the rate design as opposed to an energy-only charge is closer to cost causation and sends the appropriate pricing signal to customers.

## ANALYSIS

### I. **Impact on Customer Costs.**

Xcel proposes to increase the energy-only charge from \$0.000717/kWh (recovery of \$19.3 million) to \$0.001387/kWh in order to recover \$44.4 million in 2010.<sup>1</sup> For 2011, it

---

<sup>1</sup> Initial filing, Attachment A, Schedule 5.

projects that the RES Rider charge will again almost double to \$0.00237/KWh for recovery of \$75.8 million.<sup>2</sup> This is certainly material growth. In fact, the majority (or at least a significant portion) of Xcel’s production plant additions during the foreseeable future will be additions that are driven by renewable mandates.

OES suggests that a large power customer uses 53,000 kWh and will see a \$74 increase per-month. In the Chamber’s view, this is a relatively small customer with less than 100kW demand assuming a 75% load factor. A sample of Chamber members that are also large customers served by Xcel indicate that the monthly electricity consumption ranges from roughly 810,000 KWh to 33,000,000 kWh. As Table 1 indicates, for an average sized customer in the Chamber sample (11,700,000 kWh/month), based on an energy only charge the annual costs nearly double in 2010 from \$100,000 in 2009 to \$195,000 and will more than triple in 2011 to \$331,000. In addition, it is worth noting that in 2011, these costs could be close to \$1 million for the customer with the highest consumption in the sample, certainly not an immaterial amount.

**Table 1: Electricity Consumption and RER Rider Related Costs for a Sample of the Chamber’s Members (Based on Energy-Only Charge)**

	ELECTRICITY CONSUMPTION		ANNUAL COSTS		
	Average Monthly KWh	Annual KWh	2009	2010 (proposed)	2011 (projected)
Renewable Rider Charge (\$/KWh)			\$0.000717	\$0.001387	\$0.002357
Average KWh	11,718,846	140,626,155	\$100,829	\$195,048	\$331,456
Max KWh	32,666,667	392,000,000	\$281,064	\$543,704	\$923,944
Min. KWh	809,793	9,717,510	\$6,967	\$13,478	\$22,904

While there is clearly an increase regardless of the design used, the system production plant average demand and energy split is more fair and produces materially different results to demand metered customers, while having immaterial impact on residential ratepayers. The Chamber uses the energy and billing demand determinants to calculate class responsibility and

<sup>2</sup> See, Initial filing, Attachment A, Schedule 9.

set an energy only charge for all non-demand metered customers and to set an energy and demand charges for demand metered customers. This demonstrates the impact of allocating on the system average demand to energy split. Exhibit A shows the calculations of the resulting charges. Table 2 shows the impacts of using the unit energy and demand charges derived using the Chamber’s proposed approach for the same sample of customers are used in Table 1.

**Table 2: Cost Impacts – Xcel Proposed vs. Chamber Proposal**

	ELECTRICITY CONSUMPTION		MONTHLY COST IMPACTS				ANNUAL COST IMPACTS(*)		
	Average Monthly kWh	Billed Demand (kW)	2010 (Xcel Proposed)	2010 (Chamber Proposed)	Monthly Costs	Monthly Savings using Chamber Proposal	Annual Costs (Chamber Proposed)	Annual Savings using Chamber Proposal	
Renewable Rider Charge			Energy Only \$/KWh	Energy - \$/KWh	Demand - \$/KW-month				
			\$0.001387	\$0.00094	\$0.01232				
Average kWh	11,718,846	22,933	\$16,254	\$11,052.75	282.63	\$11,335.38	\$4,918.66	\$136,024.58	\$59,023.90
Max kWh	32,666,667	68,844	\$45,309	\$30,809.89	848.46	\$31,658.35	\$13,650.32	\$379,900.20	\$163,803.80
Min. kWh	809,793	1,479	\$1,123	\$763.76	18.23	\$781.99	\$341.19	\$9,383.91	\$4,094.28

(\*) Annual costs were calculated using the monthly costs

Using the 68%-32% allocation of the revenue requirements for energy and demand respectively and establishing separate energy and demand charges for demand metered customers results in a reduction of roughly **\$5,000.00 per month** for average sized customer in the Chamber’s sample, compared to Xcel’s proposed energy only approach. Moreover, the Chamber’s proposed change will only result in an increase of **\$.12 per month** (over an energy charge only approach) to the average residential customer using 750 kWh (from a \$1.04 per month increase using an energy only approach to \$1.16 per month using the Chamber’s proposed approach). The Chamber’s approach more closely follows cost-causation, is more equitable, fair and reasonable on an inter-class and intra-class level.

**II. Economic Efficiency.**

It is important that we develop an economically efficient manner of recovering the costs imposed on Xcel’s system. Without an economically efficient model, we promote waste or inefficient use of resources, create unnecessary construction of production and transmission

facilities, and fail to give ratepayers accurate ways to impact the cost of the system. Recovering rates based on the impact of incurring costs gives the best price signals to customers, which in turn, will drive consumption. Failure to do so gives ratepayers the message that usage patterns are unimportant and cannot affect the cost of energy you use; in doing so, demand “use spikes” are encouraged, which cut directly against several well-recognized rate design principles discussed herein, and diminish the fundamentals of real-time pricing that the Commission has been moving toward.

The Commission (when discussing customer charges as opposed to usage charges in a prior gas rate case) found that “[o]ne of the most powerful tools for heightening conservation-consciousness is maintaining a clear link between consumption and cost. While this link must sometimes be tempered to meet other rate making goals, it remains the starting point for setting rates to encourage conservation.”<sup>3</sup> The rate at which energy is used is an important measure of energy usage – Demand is the rate at which energy is being used.

An energy-only charge is inappropriate as it recovers costs disproportionately from high load-factor customers who make better use of their system load use.

### **III. Rates Reflect Cost to Serve.**

One of the core principles of ratemaking is to recover – as accurately as possible – the costs of providing service by imposing charges that reflect those costs. This principle is referred to as “cost-causation.” An energy-only charge (as proposed by Xcel) does not impose charges reflecting the actual costs of providing service. However, the Chamber’s proposal will more accurately recover costs imposed and create consistent assignment for riders moving forward. In addition to its failure to address cost-causation, a kWh energy-only charge will create

---

<sup>3</sup> FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER, *In the Matter of Minnegasco*, Docket No. G-008/GR-95-700 (June 10, 1996) at 52-53.

inconsistency between rate base recovery and rider recovery, as under any of the positions advocated for in base rate recovery at least a portion of cost allocation included a demand component.

While the parties involved in Xcel's recent rate case all acknowledged that there is undisputedly a demand component to renewable resources, OES and Xcel advocated for an energy-only charge in this rider for simplicity or administrative ease. However, using the production plant system average split from the previous rate case would: 1) create consistency between rate cases; 2) would simplify the filings and charges (as opposed to trying to analyze each asset under a CCOSS or Accredited Capacity analysis); and 3) would provide a reasonable allocation to demand as opposed to simply ignoring the cost-causation component. These assets are not "traditional" resources that are easily assigned under historical methods – either in base rates (problems discussed briefly in Section IV below) or through rider charges. Energy only is a rate design decision, due to the magnitude of the rider increase, as recognized could be the case in the Rate Case Order, now is the appropriate time to better address this issue.<sup>4</sup>

As previously mentioned, one of the core principles of ratemaking is to accurately recover the costs of providing service by imposing charges that reflect those costs. Ultimately, no party maintains these resources are purchased because they are the lowest cost of energy; indeed, Xcel's investments in this proceeding are diverse and clearly not added to satisfy energy needs. The "wind to battery" project is a clear example, as even the order in the permitting process required allocation amongst jurisdictions based on demand.

#### **IV. Xcel Rate Case.**

---

<sup>4</sup> FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER *In the Matter of Xcel*, Docket No. E-002/GR-08-1065 (October 23, 2009) at 66 (referencing cost/benefit analysis of rider design changing as rider balances grow).

Various methods of allocation were advocated for in Xcel's recent rate case for recovery of Grand Meadow if included in rate base. Each of these methods had one thing in common: *all* allocated a portion of these costs to demand. An allocation methodology imposing energy-only charges is arbitrary and must be rejected.

Each method (other than the system production plant average split as proposed by the Chamber) has deficiencies that make rider application problematic. For example, Xcel proposed the Class Cost of Service analysis ("CCOSS"), which is problematic in general because it fails to recognize that these acquisitions are driven by mandate and acquired for renewable attributes, not just for satisfying demand or energy need, as CCOSS methodologies are around a basic assumption that resources are added for (they do not address renewable attributes or mandate driven acquisitions). Moreover, CCOSS allocation is problematic for riders because it would be extremely administratively difficult to compute (each asset would need separate analysis) and would be inconsistent between cases (each year would change allocation as the asset mix would change). Additionally, the OES proposed using each resource's accredited capacity – which undoubtedly would be a better proxy than the CCOSS – but it does *not* recognize that these resources were acquired for the entire system's need to meet renewable minimums (as the Chamber's proposal does) and for this rider, (similar to Xcel's CCOSS application) would be more administratively difficult to compute and would not be consistent between cases when compared to the Chamber's proposal.

The decision in Xcel's recent rate case ("Rate Case Order") was not dispositive of this issue, as many of the facts at that time do not hold true in this filing.<sup>5</sup> Specifically: 1) growth in renewable investments ensures that these charges and costs will not be a fraction of ratepayers'

---

<sup>5</sup> Id. at 63-66 (referencing fraction of costs in riders, removal of rider costs to rate base, and reference to "mini-rate-cases").

costs it will be a larger portion and will assuredly not be insignificant for high load-factor customers; 2) the Rate Case Order on Xcel's Grand Meadow investment is evidence that costs are not always removed from riders; and 3) using the system production plant demand/energy split will avoid "mini-rate-cases," create consistency and simplify Renewable Rider filings between rate cases. Furthermore, the Commission specifically recognized "cost/benefit analysis could change as the rider balances grow" as they have here.<sup>6</sup> The Chamber's solution is reasonable and equitable and should be placed into effect.

**V. Demand and Energy Split in other Riders and for other Utilities.**

We note that riders, particularly when they are material, vary in how they are recovered and often include a demand charge. Specifically, Xcel's EIR includes demand allocations, and the Rate Case Order makes specific reference to possible modification to demand allocations in future TCR recovery and leaves the door open to demand allocation as rider balances grow and cost/benefits change. Minnesota Power also has demand allocations built into TCR and Renewable Riders and Otter Tail Power has agreed to file its next renewable rider with an allocation to demand. These instances demonstrate that while it may not be quite as administratively straight forward, utilities can and are willing to recover on split rider charges.

**CONCLUSIONS**

The magnitude of this rider, the impact on ratepayers, the simplicity or administrative ease of imposition, and the consistency and equitable allocation of the Chamber's proposal all support recovery based on Xcel's rate case production plant split - 32% through Demand and 68% through Energy.

Respectfully submitted,

---

<sup>6</sup> Id, at 66.

**FELHABER, LARSON, FENLON & VOGT, P.A.**

By: \_\_\_\_\_

Richard J. Savelkoul, #296818

Jacob C. Hendricks, #389402

444 Cedar Street, Suite 2100

St. Paul, Minnesota 55101

(651) 222-6321

**ATTORNEYS FOR MINNESOTA CHAMBER OF  
COMMERCE**

**EXHIBIT A: DERIVATION OF ENERGY (AND DEMAND CHARGES WHERE APPLICABLE) USING 68% ALLOCATION TO ENERGY AND 32% TO DEMAND**

Lines	Comments			Retail	Customer Groups			
					Residential	Commercial Non Demand	Demand	Street Lighting
1	Ratios from Xcel TCR Filing	Demand Allocator	D10T	100.00%	37.97%	3.66%	57.98%	0.39%
2								
3	Ratios from Xcel TCR Filing	Sales Allocator	D99	100.00%	27.97%	3.12%	68.38%	0.53%
4	Demand Allocator/Energy Allocator	Fixed Ratio		1.0000	1.3575	1.1735	0.8479	0.7397
5								
7								
8		Proj. Sales for 2010		32,009,608,894	8,786,810,175	1,045,177,525	22,006,236,474	171,384,720
9	Xcel Proposed RES Cost	Proposed Rev. Req. for 2010		\$44,397,328	Updated Sales Allocator based on Proj. Sales			
10	Recovery Rider	Energy	100%	\$0.001387	27.45%	3.27%	68.75%	0.54%
11		Demand	100%		Updated Demand Allocator (Row 9*Row4)			
12				Allocations	\$16,579,715	\$1,704,824	\$25,936,573	\$176,216
13	Production cost:32% peak to demand and 68% baseload to energy	Energy	68%	\$30,190,183	Sales Allocator * Total Allocation to Energy	\$8,287,368	\$985,770	\$20,755,402
14		Demand	32%	\$14,207,145	Demand Allocator * Total Allocation to Demand	\$5,305,509	\$545,544	\$8,299,704
15		TOTAL		\$44,397,328	\$13,592,877	\$1,531,313	\$29,055,106	\$218,032
16								
17	Billing Units from Xcel Energy	Energy Sales			8,786,810,175	1,045,177,525	22,006,236,474	171,384,720
18		Demand					56,120,375	
19								
20				\$/KWH	Allocation/Sales	\$0.00155	\$0.00147	\$0.00094
21				\$/KW-month	Allocation/Demand			\$0.0123