Minnesota Public Utilities Commission

Staff Briefing Papers – Volume V of VII

Revenue Decoupling

Meeting Date: **March 19, 2015 (Oral Argument)** **Agenda Item # ___**

March 26, 2015 (Deliberations)

Company: Xcel Energy (Xcel or the Company)

Docket No. **E002/M-13-867**

In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Electric service in Minnesota

Issues:

1. Should the Commission approve a decoupling mechanism?

2. If the Commission approves a decoupling mechanism, how should the decoupling mechanism be designed?

    a. Pilot vs. an ongoing decoupling program;
    b. Full vs. partial decoupling mechanism;
    c. Type and size of a Cap; and
    d. Other customer protections

Staff: Andrew Bahn ..... (651) 201-2249

Xcel Rate Case Briefing Papers
Volume V of VII - Decoupling

Table of Contents

Revenue Decoupling

PUC Staff: Andy Bahn

A. Statements of Issues

1. **Should the Commission approve a decoupling mechanism?**
2. **If the Commission approves a decoupling mechanism, how should the decoupling mechanism be designed?**

    a. Pilot vs. an ongoing decoupling program;
    b. Full vs. partial decoupling mechanism;
    c. Type and size of a cap; and
    d. Other customer protections

B. Introduction

According to the ALJ report, the objective of a properly designed decoupling mechanism is to allow the utility to receive the per-customer revenue requirement the Commission has reviewed and approved – no more and no less. Under traditional regulation, which does not include a decoupling mechanism, the utility has a disincentive to encourage conservation because conservation results in lower energy sales, which leads to lower revenue for the utility. Decoupling addresses the disincentive by adjusting ratepayers bills via a revenue true-up to recover differences between the actual revenue and the level of revenue approved for the utility in its most recent rate case. Because the utility is "made whole" for the decreased revenues, it is not penalized by customer conservation.[1]

Minn §216B.2412 Subd 1 defines decoupling as **"**a regulatory tool designed to separate a utility's revenue from changes in energy sales." According to the statute, "the purpose of de-coupling is to reduce a utility's disincentive to promote energy efficiency."

Minn §216B.2412 Subd 2 required the Commission to "establish criteria and standards for decoupling." The commission was required to "design the criteria and standards to mitigate the impact on public utilities of the energy-savings goals under section 216B.241without adversely affecting utility ratepayers." In addition, the statute required the Commission to "consider energy efficiency, weather, and cost of capital, among other factors" in designing the criterea.

Minn §216B.2412 Subd. 3 required the Commission "allow one or more rate-regulated utilities to participate in a pilot program to assess the merits of a rate-decoupling strategy to promote energy efficiency and conservation" and listed the requirements and objectives for such pilot programs.

[1] OAH, *Findings of Fact, Conclusions of Law and Recommendations,* December 26, 2014, ¶¶ 842 – 844, p. 192-193.

Revenue decoupling criteria and standards for pilot proposals were adopted by the Commission in Docket No. E, G-999/CI-08-132, *Order Establishing Criteria and Standards to be Utilized in Pilot Proposals for Revenue Decoupling*.

Pilot revenue decoupling programs have been approved by the Commission three times in the past in natural gas rate cases. CenterPoint Energy has had two pilot decoupling mechanisms approved and Minnesota Energy Resources Corporation has had one approved. The Commission has not approved a revenue decoupling program for any Minnesota electric utility.[2]

In this rate case, Xcel proposed to implement a partial revenue decoupling mechanism ("RDM") for its Residential customers and a subset of its small C&I customers (*i.e*. those that do not pay a demand charge). Xcel stated its RDM is a per-customer model. [3]

Xcel's proposed RDM would impact approximately 96 percent of Xcel's total customers and 45% of Xcel's total non-fuel base revenues. Table 1 below provides a breakdown of the Xcel customers that would be impacted by its RDM proposal.

Table 1 Xcel Non-fuel Base Revenues by Rate Class[4]

	# of Customers	Base Revenues ($1,000) [5]
Residential	1,081,230	747,683
Residential with space heating	32,357	28,249
Small C&I customers (non-demand)	85,811	Less than 104,487
All Xcel Customers	**1,250,146**	**1,965,937**

CEI, the Department and ECC are supportive of the implementation of a decoupling mechanism in this rate case. The OAG, AARP, and ICI Group oppose the implementation of a decoupling mechanism.

CEI stated it was supportive of the Company's proposal. The Department and ECC support adoption of a decoupling mechanism but proposed changes in the design of the Company's proposal. The OAG and AARP also proposed design changes if decoupling is adopted. The specific issues raised by the parties are addressed in more detail below.

C. Xcel's Proposed RDM

[2] Ex. 417, Davis Direct, p. 10-11.
[3] Ex 109 at 2 (Hansen Direct)
[4] *See* Xcel's Compliance Filing, *Sales Actual Data and Property Tax Expense Update and Related Revenue Calculations,* January 16, 2015, Attachments A, E1 and F1.
[5] Base Revenues not including fuel costs for Residential customers. The small C&I (non-demand) base revenue amount is total revenues, including fuel. For Small C&I customers that do not pay a Demand charge, Attachment E1 of Xcel's January 16, 2015 Compliance filing did not provide a breakdown of total Revenues between fuel and non-fuel revenues. Attachment F1 of the same filing did not breakdown Small C&I customers between Demand and non-demand.

Xcel stated its proposed RDM is a partial decoupling mechanism because it excludes weather effects. Xcel also stated that adjustments for the residential non-space heating, residential space heating, and small C&I non-demand customer groups would be calculated separately.[6]

According to Xcel, the revenue requirement recovered through the non-fuel energy charge would become the revenue baseline for calculating the decoupling deferrals under the RDM. Xcel stated that each month, the RDM deferral would be calculated as the difference between the monthly baseline revenue and the weather-normalized revenue collected under the volumetric rates from those customers.[7]

Xcel proposed to incorporate the cumulative deferral for each customer group into customer rates every twelve months for the following year by dividing the deferral amount by the forecast of sales to the customer group. According to Xcel, a positive cumulative deferral would result in a billing rate increase and a negative cumulative deferral would result in a billing rate decrease.[8]

Xcel stated that at the end of a 12-month period, the total deferral for each customer group would be divided by the forecast of sales to that group for the coming year and the resulting charge would be added to or subtracted from the customer group's volumetric rate for the following 12 months. Xcel stated the forecast of sales for each group would be developed using the Company's normal forecasting methods.

Xcel proposed to implement RDM rate adjustments once per year and the adjustments would remain in effect for 12 months. The Company proposed to begin calculating deferrals in the month after the Commission's final Order in this proceeding. According to Xcel, the RDM deferrals would be calculated each month through December, after which the RDM rate adjustment will be calculated and put into effect on April 1 for the following 12 months. Xcel stated the RDM rate adjustment would include deferrals for January through December, though, the first year of the RDM adjustment may include less than 12 monthly deferrals due to implementation timing.[9]

Further Details for how the RDM mechanism would be calculated were provided in Xcel's initial filing.[10]

In Rebuttal Testimony, Xcel agreed with the recommendations of the Department and OAG that the RDM should be implemented as a three-year pilot program. Xcel also agreed to forgo any

[6] Ex. 109, Hansen Direct, p. 14.
[7] *Id.*, p.10.
[8] *Id.*, p.10-11. The parties generally refer to the true-up that occurs under decoupling as a "surcharge." However, staff follows the Administrative Law Judge's example and refers to the "RDM adjustment" or "RDM billing increase" that occurs with a decoupling mechanism where the parties have often used the term "surcharge." See, ALJ's FINDINGS OF FACT, CONCLUSIONS OF LAW, AND RECOMMENDATIONS, December 26, 2014, fn 1282.

[9] *Id.*, p. 14-15.
[10] *Id.*, p. 9-12.

RDM billing rate increase in the year following a year that it fails to achieve energy savings equal to 1.2 percent of retail sales.[11]

Xcel also proposed to implement a five percent soft cap on its RDM. Xcel stated that under a soft cap, deferral amounts in excess of the cap are carried over in the deferral account for recovery in subsequent years; in contrast, under a hard cap, the deferral amount in excess of the cap is never recovered.[12] In addition, Xcel stated that under its RDM, there is no downward limit on RDM adjustments.[13]

Xcel proposed that its five percent soft cap would be measured against base revenue, excluding fuel and all applicable riders. However, if the Commission orders Xcel to implement full decoupling, then Xcel requested the RDM include a 10 percent soft cap, measured against base revenue, excluding fuel and all applicable riders.[14]

Xcel proposed to list the RDM rate adjustment as a separate line item on customers' bills[15] and it offered to submit annual RDM reports to the Commission that would include the following items:[16]

1) total over or under collection of allowed revenues by class;
2) total collection of prior deferred revenue;
3) calculations of the RDM deferral amounts;
4) the number of customer complaints;
5) the amount of revenues stabilized and how the stabilization impacted the Company's overall risk profile; and
6) a comparison of how revenues under traditional regulation would have differed from those collected under partial and full decoupling.

D. Implementation of a Decoupling Mechanism

1. Party Positions

CEI, the Department and ECC are supportive of the implementation of a decoupling mechanism in this rate case. The OAG, AARP, and ICI Group oppose the implementation of a decoupling mechanism.

a) CEI

CEI recommended adoption of the Xcel decoupling proposal, without any prospective adjustment in the company's authorized return on equity.[17] CEI stated that Xcel recovers most of its authorized nonfuel costs of service through volumetric charges on electricity. According to

[11] Ex. 110, Hansen Rebuttal, pp. 2-3; Ex. 417, Davis Direct, p. 40; Ex. 375, Nelson Direct at 61.
[12] Ex. 110, Hansen Rebuttal at 9-10.
[13] Ex. 109, Hansen Direct at 15.
[14] Ex. 110, Hansen Rebuttal at 9.
[15] Ex. 109, Hansen Direct at 16.
[16] Ex. 109, Hansen Direct at 18-19; Ex. 110, Hansen Rebuttal at 4; Ex. 417, Davis Direct at 22-23.
[17] Ex. 290, Cavanagh Direct, p. 12.

CEI, increases or reduction in consumption will affect recovery of these costs, because the costs themselves do not vary with consumption.[18] CEI stated further that because of a throughput incentive, the utility may be motivated to work against energy efficiency, despite having conservation policies in place. According to CEI this is because, when sales fall, Xcel may not be able to fully recover these fixed costs, and when sales increase it may end up collecting more.[19]

CEI stated that decoupling addresses the throughput incentive by using modest rate adjustments to prevent fluctuations in sales from resulting in over- or under-recovery of Xcel's authorized nonfuel costs. According to CEI, without a decoupling mechanism in place, Xcel and its customers would have conflicting interests on even the most cost-effective energy efficiency programs, because Xcel would lose a contribution to nonfuel cost recovery from every kilowatt-hour of reduced sales, regardless of net benefits from the energy efficiency investments that produced the reductions.[20]

b) The Department

The Department recommended the Commission approve a full revenue decoupling mechanism for Xcel's residential and non-demand-metered customer classes with the following provisions:[21]

- The Commission approves no cap on RDM billing rate decreases, but a hard cap on billing rate increases, including fuel and all applicable riders, in an amount no greater than 2 percent of total customer group revenue.

- Xcel not be allowed to implement a RDM billing rate increase in any year after the Company fails to achieve energy savings equal to 1.2 percent of retail sales.

- The pilot program runs for three years.

The Department agreed with Xcel that the Company has a disincentive under traditional regulation for investing in energy savings and that Xcel's proposed RDM would reduce Xcel's disincentive to promote energy savings, because Xcel would not make more money from additional sales.[22] The design of the RDM mechanism, including the provisions above, will be discussed below in Subheading D. In the absence of approving the full decoupling mechanism, the Department recommended that the Commission not approve a decoupling mechanism and instead maintain traditional rate regulation for the residential, residential with space heating, and non-demand small commercial customers.[23]

c) ECC

[18] *Id.* p. 3.
[19] CEI Post Hearing Brief, September 23, 2014, p. 18.
[20] Ex. 290, Cavanagh Direct, p. 3.
[21] Ex. 419, Davis Surrebuttal, p. 16-17.
[22] Ex. 417, Davis Direct, p. 18.
[23] *Id*. p. 15.

ECC coalition stated that Xcel's proposed RDM removes the Company's disincentive to promote energy efficiency.[24] ECC stated further that it supports the implementation of Xcel's proposed RDM with one modification.[25] ECC recommended the Commission should modify the proposed RDM by requiring Xcel to calculate the shortfall as a percentage of the Company's total residential energy revenue, rather than approving a per-kWh charge through which to collect the RDM shortfall. ECC stated that the adjustment to future bills should then be calculated as a percentage of the customer's total energy bill.[26] This will be discussed in detail below in the following Section on the design of the RDM.

d) AARP

AARP recommended that the Commission reject Xcel's proposed RDM proposal for the following reasons:

- Decoupling is unnecessary to support its DSM goals;
- Decoupling would shift risk to consumers, particularly low-use customers, who are less able to benefit directly from DSM; and
- Decoupling weakens the economic benefit of customer efficiency and conservation effects.

According to AARP, there is little empirical evidence that the presence or absence of revenue decoupling is needed for Xcel to pursue effective energy efficiency and demand-side management programs.[27] Further, AARP claims that decoupling shifts sales risk onto consumers and stabilizes Xcel's revenues going forward.[28]

e) OAG

The OAG stated that it believes that a decoupling program is unnecessary because Xcel has provided no proof that decoupling will increase energy savings.[29] Further, the OAG stated that Xcel already has significant environmental goals and that it has met or exceeded its statutory target of 1.5% energy savings in recent years.[30] In addition, the OAG stated that decoupling can cause customer confusion. If the Commission were to implement a decoupling mechanism, the OAG recommended that the Commission modify Xcel's proposed RDM as follows:[31]

- Consider full over partial decoupling;
- Make the RDM a pilot program; and
- Do not change the customer charge.

[24] Ex. 234, Colton Direct, p. 29.
[25] ECC Post Hearing Brief, Sept 23, 2014, p. 23.
[26] *Id*. p. 26.
[27] Ex. 310, Brockway Direct, p. 11.
[28] *Id*. p. 21.
[29] Ex. 375, Nelson Direct, p. 54.
[30] *Id*. p. 53.
[31] *Id*. p. 60.

f) The ICI Group

The ICI Group recommended that the Commission not accept Xcel's proposed RDM because of a concern that decoupling will eventually expand to include larger customers (demand-metered).

2. Xcel's response to AARP, the OAG and ICI's opposition to its proposed RDM

As stated above, in Rebuttal Testimony, Xcel agreed with the recommendations of the Department and OAG that the RDM should be implemented as a three-year pilot program. Xcel also agreed to forgo any RDM billing rate increase in the year following a year that it fails to achieve energy savings equal to 1.2 percent of retail sales.[32]

Xcel disagreed with the OAG that decoupling will lead to customer confusion. Xcel stated that there is no evidence of widespread customer confusion, after finding one customer complaint in an evaluation of three independent studies of decoupling mechanisms at four different utilities.[33]

Xcel also disagreed with the OAG and AARP's contention that decoupling is unnecessary since Xcel already has conservation incentives in place. Xcel stated that this premise is faulty, because the purpose of decoupling is to remove a utility's financial disincentive to promote conservation. Xcel stated that the statutory structure treats decoupling and incentive mechanisms as complements, not substitutes. According to Xcel, its proposal fits within the State's overall policy for pursuing energy savings and should be adopted.[34]

In addition, Xcel stated it disagreed with the OAG and AARP assertion that decoupling is inappropriate because it will increase costs without measurable benefits. Xcel stated that RDM adjustments should not be equated with adverse customer impacts. According to Xcel, while the proposed RDM may trigger rate decreases or increases in any given year, the Company can only collect the revenue per customer authorized in this case. Xcel stated the revenue per customer established in this case must be set at a just and reasonable level.[35]

Further, Xcel stated that potential RDM adjustments would be modest and customers can offset upward RDM adjustments through less than average conservation. According to Xcel, the percentage of bill increases would be smaller for low-use customers, and at lower usage levels, the maximum adjustment can be offset by replacing a single light bulb.[36]

3. ALJ Report

The ALJ found that revenue decoupling can balance Xcel's obligation to promote energy efficiency and conservation without adversely affecting ratepayers. According to the ALJ, Xcel demonstrated that, while it has been meeting its energy efficiency goals, compliance will be

[32] See fn 10 above.
[33] Ex. 110, Hanson Rebuttal, p. 17-18.
[34] Xcel Post Hearing Brief, September 23, 2014, p. 147.
[35] *Id*. p. 148
[36] *Id.*

more difficult in coming years. The ALJ concluded that it is reasonable to implement decoupling in this rate case.[37]

4. Exceptions to the ALJ Report

Xcel agreed with the ALJ's conclusion that it is reasonable to implement decoupling in this rate case. [38] CEI stated that it generally supported the ALJ Report and filed only one exception, which did not impact the decoupling mechanism.[39]

The OAG took exception to the ALJ's recommendation to implement a decoupling program, and stated it believes that a decoupling program is unnecessary because the record does not support that it will result in increased conservation efforts, and because it will likely be detrimental to ratepayers. [40] Likewise, AARP also took exception to the ALJ's recommendation to implement a decoupling program and stated that such a mechanism is unnecessary, and that it would still unfairly and unreasonably shift business risks to residential customers, without compensating consumers for bearing those new risks.[41]

The Department did not take specific exceptions to the ALJ's conclusions regarding the Decoupling mechanism, but stated that it continues to support its positions on contested issues that the ALJ did not support, but it did not offer any additional argument through filed exceptions regarding those issues.[42]

The ICI Group noted that the ALJ Report did not include a restriction that decoupling will not be applied to large, demand-metered customers in the future and stated that any decoupling should be specifically limited so that it does not, and will not, apply to large, demand-metered customers.[43]

ECC did not file Exceptions to the ALJ Report.

E. Decision Alternatives – Implementation of a Decoupling Mechanism

1. Approve the Xcel's proposed RDM

2. Do not approve Xcel's proposed RDM

3. Approve Xcel's proposed RDM with modifications

(Note: These decision alternatives correspond to alternatives V, A (1 through 3) on p. 32 of the deliberation outline.)

[37] ALJ's FINDINGS OF FACT, CONCLUSIONS OF LAW, AND RECOMMENDATIONS, December 26, 2014, ¶¶ 887-892, p. 201.
[38] Xcel's EXCEPTIONS TO ALJ REPORT, January 20, 2015, p. 15.
[39] CEI's EXCEPTIONS TO ALJ REPORT, January 20, 2015, p. 2.
[40] OAG's EXCEPTIONS TO THE ALJ Report, January 20, 2015, p. 34.
[41] AARP's EXCEPTIONS TO THE ALJ Report, January 20, 2015, p. 6.
[42] Department's EXCEPTIONS TO THE ALJ Report, January 20, 2015, p. 4.
[43] The ICI Goup's EXCEPTIONS TO THE ALJ Report, January 20, 2015, p. 40-41.

F. Design of the Decoupling Mechanism

Xcel proposed RDM is a partial revenue decoupling mechanism for its Residential customers and a subset of its small C&I customers (*i.e*. those that do not pay a demand fee).

Xcel's Initial proposed RDM had the following components:[44]

- The RDM would be a partial revenue-per-customer decoupling mechanism that removes the effect of weather from the decoupling deferrals.

- The RDM would apply to three customer groups: residential non-space heating, residential space heating, and small commercial and industrial customers that do not pay a demand charge.

- The revenue requirement recovered through the non-fuel energy charge, on a per-customer basis, would be the revenue baseline for calculating the decoupling deferrals.

- Each month, the RDM deferral for a customer group would be calculated as the difference between the monthly baseline revenue and the weather-normalized revenue collected under the volumetric rates from those customers.

- Every 12 months, the cumulative deferral (over or under recovery) for each customer group would be incorporated into customer rates for the following year by dividing the deferral amount by the forecast of sales to that customer group. A negative cumulative deferral would result in a rate increase. A positive cumulative deferral would result in a rate decrease. The rate change would occur on April 1 of the following year.

- Total fixed-revenue amount would be calculated using the test year energy charges, minus the CIP component, multiplied by test year sales for the corresponding customer group.

- Deferrals would be calculated starting in the 1st month after the Commission's final Order in this proceeding and through December of that year. The RDM rate adjustment would then be calculated and put into effect on April 1 for the following 12 months.

- Xcel proposed a "soft" cap on rate increases and no cap on rate reductions. For the soft cap, if a rate increase is more than five percent of total customer group revenue, including fuel and applicable riders, the excess deferral amount above the five percent would be carried over to the RDM deferral account in the following year.

- The RDM rate adjustment would be listed as a separate line item on the customer's bill.

- Xcel's proposed RDM would be an ongoing program, not a pilot program.

[44] Ex. 417, Davis Direct, p. 12-13.

In addition, Xcel agreed to the following RDM modifications in its rebuttal testimony:[45]

- Xcel agreed to implement the RDM as a three-year pilot program.
- Xcel agreed to disallow any RDM billing rate increase in the year after the Company fails to achieve energy savings equal to 1.2 percent of retail sales.

Xcel also offered to submit annual RDM reports to the Commission that would include the following items:[46]

- total over or under collection of allowed revenues by class;
- total collection of prior deferred revenue;
- calculations of the RDM deferral amounts;
- the number of customer complaints;
- the amount of revenues stabilized and how the stabilization impacted the Company's overall risk profile; and
- a comparison of how revenues under traditional regulation would have differed from those collected under partial and full decoupling.[47]

Several parties recommended that the customer charge should remain the same, or be decreased if the Commission were to approve a decoupling proposal. Discussion of the customer charge and its impact on decoupling is provided in Volume VI of Staff Briefing Papers. AARP proposed that if the Commission were to approve a decoupling mechanism, Xcel's Return on Equity should be adjusted accordingly. Discussion of the impact of a Decoupling mechanism on the ROE is provided in Volume III of Staff Briefing Papers.

The Department recommended the Commission approve a full revenue decoupling mechanism for Xcel's residential and non-demand-metered customer classes with the following provisions:[48]

- No cap on RDM billing rate decreases;
- A hard cap on billing rate increases in an amount no greater than three percent of total customer group revenue, including fuel and all applicable riders;
- Xcel not be allowed a billing rate increase in any year after it fails to achieve energy savings equal to 1.2 percent of retail sales; and
- The pilot program runs for three years.

Although both the OAG and AARP were opposed to the implementation of a Decoupling mechanism, both proposed design modifications to Xcel's proposal, if the Commission were to approve a decoupling mechanism.

[45] Ex. 110, Hansen Rebuttal, p. 2-3.
[46] Ex. 109, Hansen Direct at 18-19;
[47] Ex. 110, Hansen Rebuttal, p. 4.
[48] Ex. 419, Davis Surrebuttal, p. 16-17.

If the Commission were to approve a decoupling mechanism, The OAG recommended the following: [49]

- The RDM be a full decoupling mechanism instead of a partial decoupling mechanism,
- The decoupling mechanism includes a hard cap that is between 1-2% of total revenues, not including the cost of fuel and riders.
- Make any approved decoupling mechanism a pilot program.

If the Commission were to approve a decoupling mechanism, AARP recommended the following:[50]

- Xcel shall make a filing assuring the Commission of the specific ways in which:
    - Xcel will produce incremental energy savings, beyond those called for in the triennial plan,
    - Performance requirements are established directly linking any RDM ratemaking treatment to proven utility-sponsored DSM savings, and
    - The programs adopted in fulfillment of the Company's DSM commitments assure that all residential customers can participate in DSM equally (if in fact, all residential customers are equally responsible for DSM costs).
- The level of RDM billing rate increases that can occur in a 12-month period shall be capped at 2% of excess revenues. The cap shall be a hard cap on total revenues not including the fuel and other rider revenues,
- The frequency of RDM rate adjustments shall be limited to no more than an annual basis.
- The Commission should prevent cross-subsidization due to RDM billing rate increases imposed upon low-use residential customers,
- RDM billing adjustments shall be applied in a manner that benefits those customers who use the least energy.
- The Commission should establish any RDM as a pilot program**.**

ECC supported Xcel's proposed RDM with one modification. ECC recommended that rather than approving a per-kWh charge through which to collect the RDM shortfall as proposed by Xcel, the shortfall should instead be calculated as a percentage of Xcel's total residential energy revenue. In addition, ECC recommended the adjustment to future bills should be calculated as a percentage of the customer's total energy bill.[51]

1. Non-disputed Items

a. Three-Year Pilot vs. Ongoing Program

Xcel originally proposed its RDM as an ongoing program. Xcel interpreted the *Order Establishing Criteria and Standards to be Utilized in Pilot Proposals for Revenue Decoupling* in Docket No. 08-132 as indicating that its proposed RDM is not eligible for pilot program status,

[49] Ex. 376, Nelson Rebuttal, p. 39.
[50] Post-Hearing Brief of AARP, September 23, 2014, pp. 17-18.
[51] Post-Hearing Brief of ECC, September 23, 2014, pp. 24-25.

as all pilot proposals needed to be filed by December 30, 2011. Specifically, the Order stated the following:[52]

> The Commission is not ready at this juncture to set final criteria and standards regarding decoupling, believing that the most promising approach is to examine the pilot proposals that will be submitted based on the criteria and standards established by this Order. After implementation and review of these pilot projects, utilities will be in the position to tackle the details of implementing an effective decoupling program. Other stakeholders are equally engaged and will help refine and perfect these programs. It is only in the context of assessing actual proposals that this important work can move forward, and that the practical issues posed by decoupling can be analyzed and addressed.
>
> Therefore, after careful consideration of the submissions of the parties, the RAP Report, and the discussion of the parties at the Commission meetings, the Commission will adopt the following Revenue Decoupling Criteria and Standards:
> …
>
> 8. Pilot Implementation:
>
> ….
>
> D. Deadline for filing Pilot Programs
>
> (1) All utilities shall file a non-binding notice of intent as to their plans for filing a decoupling pilot by June 1, 2010.
>
> *(2) All pilot proposals shall be filed by December 30, 2011.*

The Department disagreed that Xcel's RDM is not eligible for pilot program status. The Department stated that the Commission has the ability to reopen its Orders and take other actions within its authority to protect ratepayers. Further the Department stated that because Xcel's RDM is the first decoupling project for an electric utility, approving it as a pilot project would signal that the project is new or unusual and indicate that the Commission has an interest in monitoring the project. According to the Department, such an approach would allow the Commission to see how the RDM performs and make any necessary adjustments over time.[53]

The OAG stated that because there are numerous issues with decoupling that are yet unresolved, making the program permanent may harm ratepayers. Therefore, the OAG recommended that if the Commission orders a decoupling mechanism, it should be a pilot program.[54]

In its Rebuttal testimony, Xcel agreed to implement the RDM as a three-year pilot program. Xcel stated that its original proposal to implement the RDM as a permanent program was meant to comply with the requirements in the Order in Docket No. E,G999/CI-08-132. However, Xcel stated that implementing the RDM as a pilot program is consistent with its desire for a gradual

[52] Docket No. 08-132, *Order Establishing Criteria and Standards to be Utilized in Pilot Proposals for Revenue Decoupling,* June 19, 2009, pp. 8-9.
[53] Ex. 417, Davis Direct, p. 38.
[54] Ex. 375, Nelson Direct, p. 61.

and cautious approach to decoupling. Further, Xcel agreed that since the Company would be the first electric utility in Minnesota to adopt decoupling, it is reasonable to do so as a pilot program.[55]

b. Disallowing RDM Billing Rate Increases if Xcel Fails to Achieve Energy Savings Equal to 1.2 Percent of Retail Sales.

The Department recommended that Xcel not be allowed to implement a RDM Billing rate increase in the year after the Company fails to achieve energy savings equal to 1.2 percent of retail sales. The Department stated that the purpose of revenue decoupling is to stabilize a utility's revenues and remove the disincentive to promote energy savings. The Department believes that including this provision would help ensure that Xcel would comply with statutes and provide Xcel with the additional impetus to maximize its energy savings opportunities.[56]

Xcel accepted the Department's proposal and stated that it viewed this requirement as a means of demonstrating its commitment to working with its customers to ensure the effective promotion of conservation and energy efficiency.[57]

2. Disputed Items

There were several disputes in regard to the design of Xcel's proposed RDM Decoupling Mechanism. The following disputes are summarized in turn below.

- The Department and OAG preferred full decoupling to a partial decoupling mechanism.

- The Department, OAG and AARP preferred a hard Cap to a soft Cap.

- Xcel proposed that the annual RDM billing adjustment be applied to the per-kWh variable charge based on monthly billings to specific customer groups. ECC recommended that the Company instead calculate RDM billing adjustments as a percentage of the customer's total energy bill.

- AARP recommended that if the Commission determines that an electric decoupling pilot program for Xcel is in the public interest, the Commission should adjust the ALJ's recommended return on equity for Xcel downward by 10 basis points and Xcel should be required to make additional commitments (by making a filing) that assures the Commission of the specific ways in which:

    - Xcel will produce incremental energy savings, beyond those called for in the triennial plan;
    - Performance requirements are established directly linking any RDM ratemaking treatment to proven utility-sponsored DSM savings, and

[55] Ex. 110, Hansen Rebuttal, p. 3.
[56] Ex. 417, Davis Direct, p. 39.
[57] Ex. 110, Hansen Rebuttal, p. 3.

- All residential customers can participate in DSM equally, because all residential customers are equally responsible for DSM costs.

a. Full vs. Partial Decoupling

In a full decoupling mechanism the true-up amount is based on differences between forecasted revenue and actual sales that occur, regardless of the reason, including weather that deviates from forecasted ("normal") weather. Partial decoupling excludes specific deviations from the forecasted revenue, such as increased or decreased sales due to weather. In this rate case, Xcel has proposed to implement a partial RDM that excludes weather effects.

The Commission has approved both full and partial decoupling mechanisms for gas utilities, in the past. In Docket No. 08-1075, the Commission approved partial decoupling mechanism for CenterPoint Energy. The pilot program started on July 1, 2010 and expired on June 30, 2013. The Commission later approved a full decoupling mechanism for CenterPoint Energy, which has not yet gone into effect. The Commission also approved a pilot full decoupling mechanism for Minnesota Energy Resources Corporation in Docket No. 10-977.

Xcel stated that it prefers partial decoupling over full decoupling, because partial decoupling is consistent with the Company's gradual approach to decoupling. Further, according to Xcel, the exclusion of weather effects from the RDM does not affect Xcel's ability to remove the Company's disincentive to promote conservation and energy efficiency. Xcel stated it is reasonable for it to limit the scope of the RDM to exclude weather effects, because the primary goal of implementing the RDM is to remove its throughput disincentive.

CEI supported Xcel's proposed partial RDM. Both the Department and the OAG recommended that the Commission modify Xcel's proposed RDM by making it a full Decoupling mechanism, instead of a partial decoupling mechanism.

CEI

CEI stated that in the past it has supported full decoupling in other states, but that decoupling mechanisms work best when utilities support and embrace the key design elements applicable to them.[58] CEI also stated that it would support either a "full" or "partial" decoupling mechanism, depending on which approach this Commission determines to be the most protective of customers.[59]

Department

The Department recommended that the Commission approve a full decoupling mechanism for Xcel, as a pilot project for the following reasons:[60]

[58] Ex. 294, Cavanagh Rebuttal, p. 6.
[59] CEI Reply Brief, October 14, 2014, p. 12.
[60] Ex. 417, Davis Direct, p. 36 – 37.

- A pilot program would provide an excellent opportunity for the Commission to observe the benefits and costs of full decoupling for an electric utility,;
- Full decoupling could actually lead to cost reductions under some scenarios, and
- A decoupling mechanism would work in conjunction with the Shared Savings DSM financial incentive mechanism to provide an appropriate mix of energy savings policies, whereby Xcel is motivated to surpass its past achievements while minimizing costs to ratepayers.

The Department examined the potential costs to Xcel's ratepayers under Xcel's proposed RDM (partial), under full decoupling, and under traditional ratemaking (no decoupling) for each of the five years, 2009 to 2013. The Department compared the impacts of partial and full decoupling to traditional rate regulation for the three customer classes that would be covered by Xcel's proposed RDM residential, residential with space heating, and non-demand-metered small commercial. The Department concluded that Xcel's proposed partial RDM has the potential to significantly increase ratepayer costs and that full decoupling mechanism could also increase ratepayer costs, but to a much smaller extent.[61]

Through its examination of Xcel's historical records from 2009 through 2013, the Department determined that the residential and residential space heating customers would never have received a billing rate decrease under Xcel's partial RDM proposal and that the three RDM customer classes would have paid a total of $72.7 million as a result of billing rate increases. According to the Department, if the partial RDM had been in place from 2009 to 2013, the residential customers alone would have paid an additional $70.4 million, with each residential customer paying an average of $13.20 more per year. The residential with space heating customer class would have paid an additional $2.6 million with each customer paying an average of $16.92 more per year and the small commercial, non-demand-metered class would have benefitted from a billing rate decrease to the effect of $332 thousand, with each customer earning $0.84 per year, on average as a result of the RDM billing rate adjustments.[62]

In its analysis of Xcel's historical records the Department concluded that from 2009-2013, full decoupling also would have resulted in a net RDM billing rate increase for both residential customer classes, although a much smaller one. The Department determined that if a full decoupling mechanism had been in place from 2009-2013, the three RDM customer classes would have paid $15.8 million more than if traditional ratemaking had been in place. The residential class would have paid an additional $15.6 million, with each customer paying an average of $3 more per year, as a result of RDM billing rate increases. The residential with space heating customer class would have paid an additional $2.4 million with each customer paying an average of $16.08 more per year. The small commercial, non-demand metered customers would have earned $2.3 million with each customer receiving an average annual amount of $5.28 as a result of RDM billing rate adjustments.[63]

The Department concluded that the difference between full and partial decoupling is that under Xcel's partial decoupling proposal actual sales are weather-normalized before calculating

[61] *Id.*, p. 25-27.
[62] *Id*., p. 27.
[63] *Id*., p. 28.

whether Xcel has experienced an under- or over-collection for a customer class. According to the Department, the fact that partial decoupling would have resulted in a RDM billing rate increase but full decoupling would have resulted in a RDM billing rate decrease during certain years suggests that Xcel experienced non-normal weather (warmer than normal), which boosted its sales. The Department explained that since the increased sales are not taken into account, the partial decoupling mechanism makes it appear in the RDM as if Xcel's revenues are lower than they are and thus customers are subjected to a RDM billing rate increase. [64]

OAG

The OAG also recommended that the Commission consider full over partial decoupling.[65] The OAG agreed with the Department that a full decoupling mechanism would have cost ratepayers far less over the last 5 years when compared to Xcel's proposed partial decoupling mechanism. The OAG explained that the reason partial decoupling would have cost more to customers may be related to weather trends. The OAG stated that since summer temperatures are rising, weather normalization is overestimating consumption because it does not account for the conservation that is taking place. Therefore, the OAG concluded that weather normalizing sales would make it seem as though customers are under consuming when compared to 20 years of weather and sales data, when in reality they are simply consuming electricity more efficiently. The OAG stated that this is consistent with the trend that electric utilities often request partial decoupling and gas utilities request full decoupling to obtain a weather advantage one way or the other.[66]

Xcel's Response to the Department and OAG

Xcel stated that the Department based its conclusion on a particular period of time that does not necessarily reflect the conditions that will occur during the three-year RDM pilot period. According to Xcel, 2010 and 2011 were two of the five hottest summers over the last 20 years (1994-2013).[67]

Xcel modified the simulated RDM deferrals for different weather outcomes than the one that occurred historically to obtain different results. According to Xcel, if one unusually hot year is replaced by one unusually mild year, the deferral under full decoupling is significantly higher than the deferral under partial decoupling for the same time period. Xcel used these simulations to demonstrate the extent to which conditions specific to a period of time can affect comparisons of full and partial decoupling.[68]

In addition Xcel stated that weather and non-weather conditions will not necessarily offset one another under full decoupling. As an example, Xcel stated that a year with both mild weather and a poor economy would lead to higher RDM billing rate increase under full decoupling than

[64] *Id*., p. 31.
[65] Ex. 374, Nelson Direct, p. 60.
[66] *Id*., p. 55-56.
[67] Ex. 110, Hansen Rebuttal, p. 5.
[68] *Id.* p. 6-8.

partial decoupling. [69] Further, according to Xcel, its simulations demonstrate that its proposed RDM does not provide a guarantee of increased revenues to the Company[70]

The Departments Surrebuttal Response to Xcel

The Department agreed with Xcel that conditions such as an economic downturn or significantly higher energy conservation could lead to higher rates charged to customers under either partial or full decoupling. However, the Department points out that the factor that distinguishes partial and full decoupling is weather; whereby mild weather could lead to higher rates under full decoupling but not under partial decoupling.[71]

The Department also noted that Xcel's analysis of weather simulations assumed that there would be no hard cap. Thus, according to the Department, Xcel's RDM billing rate increase under full decoupling proposal would never reach the size Xcel discusses with a hard cap in place.[72]

ALJ Report

The ALJ recommended that the Commission modify Xcel's proposed RDM to be a full decoupling mechanism, rather than a partial decoupling mechanism.[73]

> 910. Based on the record in this case, the Administrative Law Judge concludes that full decoupling is a more reasonable approach than partial decoupling for the Company's residential and small business customers who would be subject to the RDM adjustments. The Department has demonstrated that the Company's partial decoupling RDM is likely to result in the Company's residential customers paying substantially more than under a full decoupling RDM, and could result in ratepayers being overcharged. Moreover, the record shows that either a full or a partial RDM would eliminate the Company's disincentive to encourage energy conservation and efficiency. To avoid an adverse impact on ratepayers subject to the new RDM, the Administrative Law Judge recommends that the Commission order the Company to implement its RDM with full decoupling.

Exceptions to the ALJ Report

Xcel disagreed with the ALJ's finding that partial decoupling would adversely impact customers. Xcel stated that the ALJ conclusion that the Department's analysis "has demonstrated that the Company's partial decoupling RDM is likely to result in the Company's residential customers paying substantially more than under a full decoupling RDM, and could result in ratepayers being overcharged, " is problematic for three reasons.[74]

[69] *Id.* p. 8.
[70] Ex. 111, Hansen Surrebuttal, p. 3.
[71] Ex. 419, Davis Surrebuttal, p. 10.
[72] *Id.* p. 11.
[73] ALJ's FINDINGS OF FACT, CONCLUSIONS OF LAW, AND RECOMMENDATIONS, December 26, 2014, ¶ 910, p. 205-206. [footnotes removed]
[74] XCEL ENERGY EXCEPTIONS AND CLARIFICATIONS TO ALJ REPORT, January 20, 2015, p. 16.

1) RDM billing adjustments would be limited to those amounts necessary to achieve the weather normalized revenue per customer approved in this case, therefore Xcel's proposed RDM cannot result in any overcharge,
2) Xcel demonstrated that the Department's conclusions are dependent on the pilot period sharing economic and weather characteristics with the recent past and if the pilot period has slightly different weather patterns, the purported advantages of full decoupling over partial decoupling either vanish or become disadvantages, and
3) Xcel's proposed RDM does not affect customers out of proportion to the purposes of the statute and the benefits derived by ratepayers from the RDM.

Xcel agreed with the ALJ that either a full or partial RDM would eliminate the Company's disincentive to encourage energy conservation and efficiency. Likewise, Xcel agrees with the ALJ, the Department and CEI that the Company's partial decoupling mechanism eliminates the disincentive to promote conservation. Xcel requested the ALJ Report Finding 910 be amended as follows:

> 910. ~~Based on the record in this case, the Administrative Law Judge concludes that full decoupling is a more reasonable approach than partial decoupling for the Company's residential and small business customers who would be subject to the RDM adjustments. The Department has demonstrated that the Company's partial decoupling RDM is likely to result in the Company's residential customers paying substantially more than under a full decoupling RDM, and could result in ratepayers being overcharged. Moreover, the~~ The record shows that either a full or a-partial RDM would eliminate the Company's disincentive to encourage energy conservation and efficiency. ~~To avoid an adverse impact on ratepayers subject to the new RDM, the Administrative Law Judge recommends that the Commission order the Company to implement its RDM with full decoupling.~~ Given the Company's desire to take a-gradual approach, the Company's preference for partial decoupling and-the recognized benefits of aligning the Company's interests with public's-interests in energy efficiency, the Company shall implement a partial-RDM on a pilot basis.

Staff Comment

Staff appreciates the Department's historical analysis and comparison of full and partial decoupling and traditional regulation. Staff agrees with the Department's conclusion that customer's would be better off under full decoupling than partial decoupling if weather is warmer than normal during the time period that the decoupling mechanism is in effect.

Staff also agrees with Xcel that the historical record does not necessarily reflect what the weather will be during the time period the decoupling mechanism is in effect and results can vary significantly depending on whether summers are warmer or cooler than normal.

Finally, staff agrees that either full or partial decoupling would reduce the company's disincentive to encourage energy conservation and efficiency. However, there are two potential

adverse impacts which may result from Xcel's partial RDM that are not possible under a full decoupling mechanism.

1) Xcel may over-recover the approved non-fuel base costs through volumetric rates, and yet customers may receive a billing rate increase to the non-fuel base energy charge.
2) Xcel may under-recover the approved non-fuel base costs through volumetric rates, and yet customers may receive a billing rate decrease to the non-fuel base energy charge.[75]

The Commission may wish to consider whether the risk for either potential outcome occurring as result of Xcel's proposed partial RDM is in the public interest.

As has been discussed above, the purpose of a decoupling mechanism is to address a utilities throughput incentive. Because Xcel recovers a significant portion of its authorized fixed costs through volumetric charges on electricity, increases or reduction in consumption will affect recovery of these costs, even though the costs themselves do not vary with consumption. [76]

As described by CEI, decoupling would address the throughput incentive by using rate adjustments to prevent fluctuations in sales (either up or down) from resulting in over- or under-recovery of Xcel's previously approved nonfuel costs.[77]

---

[75]Both of these results were highlighted in the most recent CenterPoint Energy rate case. In the case of Center Point's Pilot Partial Decoupling program, CenterPoint under-recovered revenues and customers received a billing rate decrease due to a warmer than normal winter. This formed the basis for CenterPoint proposing a full decoupling mechanism in its most recent rate case, which the Commission ultimately approved. See Docket No. 13-316, *In the Matter of the Application of CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas For Authority to Increase Rates for Natural Gas Utility Service in Minnesota*, Direct Testimony of Paul D. Gastineau, August 2, 2013, pp. 5-6. When asked "Could the use of weather-normalized revenues produce results contrary to the public interest?" CenterPoint's Witness answered affirmatively:

> Yes. It may result in the Company increasing rates to customers as if the Company under-collected revenues when in reality this would not be the case. This may happen in years with cooler than normal temperatures because the weather-normalized revenues will be less than actual revenues, and their use could result in surcharges to customers even though the Company may have over-collected in reality. This result would be harmful to customers and not in the public interest. Alternatively, it could cause the Company to refund money to customers due to an apparent over-collection even though the Company may have under-collected its allowed revenues during an Evaluation Period with warmer than normal weather. This result would be harmful to the Company, denies the Company a reasonable opportunity to earn its allowed return, and also is not in the public interest. …In the 2012 Evaluation Period, weather was much warmer than the normal weather used to set the Company's rates in its last rate case and in the CE Rider calculation. This led to the Company's actual non-gas revenues being significantly lower than the weather-normalized revenues used in the CE Rider Adjustment calculation. For the 2012 Evaluation Period, the CE Rider Adjustment calculation showed an aggregate over-collection of $2.6 million across all applicable rate classes, when in fact the Company in aggregate under collected by $20 million for the applicable rate classes. So, the Company is giving a refund in aggregate to customers despite this under-collection.

CenterPoint is a winter peaking gas company. Therefore, cooler than normal weather leads to increased sales and vice versa. In the case for Xcel, a summer peaking electric company, milder summers lead to decreased sales and warmer summers lead to increased sales.

[76]Ex. 290, Cavanagh Direct, p. 3.

[77] *Id.*

Under Xcel's proposed RDM, the revenue requirement recovered through the non-fuel energy charge would become the revenue baseline for calculating the decoupling deferrals. This baseline revenue is the approved nonfuel costs as determined in this rate case.

According to Xcel, each month the RDM deferral would be calculated as the difference between the monthly baseline revenue and the weather-normalized revenue collected under the volumetric rates from those customers.

Xcel proposed to incorporate the cumulative deferral for each customer group into customer rates every twelve months for the following year by dividing the deferral amount by the forecast of sales to the customer group and a positive cumulative deferral would result in a billing rate increase and a negative cumulative deferral would result in a billing rate decrease to the non-fuel energy charge (volumetric rates).

The difference between full and partial decoupling is that under Xcel's proposal, the RDM deferral is calculated as the difference between the monthly baseline revenue (authorized nonfuel costs) and the *weather-normalized* revenue collected under the volumetric rates from those customers. Under a full decoupling mechanism the RDM deferral would be calculated as the difference between the monthly baseline revenue and the *unadjusted* revenue collected under the volumetric rates from those customers.

The potential adverse impacts, which may result from a partial RDM that are not possible under a full decoupling mechanism, are described below.

First, if weather is warmer than normal, consumption may increase, remain the same or decrease depending on the level of increase in energy efficiency on a per customer basis. A full decoupling mechanism is designed to allow the utility to receive the per-customer revenue requirement the Commission has reviewed and approved – no more and no less. In other words, under full decoupling, the current level of energy efficiency has no impact on the amount of per-customer revenue the utility is allowed to receive. If the revenue collected under the volumetric rates from customers is greater than monthly baseline revenue, then customers will receive a billing rate decrease to the non-fuel energy charge. If the revenue collected under the volumetric rates from customers is less than monthly baseline revenue, then customers will receive a billing rate increase to the non-fuel energy charge.

Under partial decoupling, Xcel still receives the same revenue under the volumetric rates from customers as it would have under full decoupling. However, for the purpose of determining the RDM deferral, and the billing adjustment to the non-fuel energy charge (billing rate increase or decrease), Xcel adjusts the revenue collected under the volumetric rates by *weather normalizing* this revenue.

Thus, under the partial decoupling mechanism, if weather is warmer than normal and consumption increases as a result, it is possible for Xcel to collect more than the per-customer revenue requirement the Commission has reviewed and approved. However, unlike a full decoupling mechanism, after adjusting the revenue collected through volumetric rates by weather

normalizing this revenue, it is possible for there to be a billing rate increase in the non-fuel energy charge under partial decoupling if the level of energy efficiency increase is sufficiently high enough. In other words, a possible outcome under partial decoupling is for the average customer to be negatively impacted by a warmer than normal summer due to larger bills as a result of increased energy consumption. On top of the larger bills, the customer may also receive a billing rate increase in volumetric rates, if the average customer has made sufficient gains in energy efficiency.

Likewise, if weather is milder than normal a partial decoupling mechanism may have the opposite effect. Again, under full decoupling, the level of energy efficiency has no impact on the amount of per-customer revenue the utility is allowed to receive.

However, under partial decoupling it is possible for Xcel to collect less than the per-customer revenue requirement the Commission has reviewed and approved, if weather is milder than normal and consumption decreases as a result. However, unlike a full decoupling mechanism, after adjusting the revenue collected through volumetric rates by weather normalization, it is possible for there to be a billing rate decrease in the non-fuel energy charge under partial decoupling if customers were less energy efficient. In other words, a possible outcome under partial decoupling is that Xcel may be negatively impacted by under-recovery of its authorized nonfuel costs due to a milder than normal summer and receiving less volumetric revenues through its non-fuel energy charge. On top of not earning its authorized revenues, Xcel may also be negatively impacted by a billing rate decrease in volumetric rates, if the average customer has had a sufficient decrease in energy efficiency.[78]

The Commission may wish to consider whether the risk for either potential adverse impact, which may result from a partial decoupling mechanism, is in the public interest.

b. CAP on RDM Billing Increase – Hard vs. Soft Cap

Xcel

Xcel proposed to implement a five percent soft cap on its RDM. Under its original proposal, Xcel proposed a soft cap of five percent of total revenue, including fuel and all applicable riders. In its rebuttal testimony; Xcel modified its proposed soft cap to be five percent of base revenue, excluding fuel and all applicable riders.[79]

Xcel stated that under a soft cap, deferral amounts in excess of the cap are carried over in the deferral account for recovery in subsequent years; in contrast, under a hard cap, the deferral amount in excess of the cap is never recovered. [80] In addition, Xcel stated that under its RDM, there is no downward limit on RDM adjustments.[81] However, if the Commission orders Xcel to

[78] See fn 70 above.
[79] Ex. 110, Hansen Rebuttal, p. 9.
[80] *Id*. p. 10.
[81] Ex. 109, Hansen Direct, p. 15.

implement full decoupling, then Xcel requested the RDM include a 10 percent soft cap, measured against base revenue, excluding fuel and all applicable riders.[82]

Xcel stated it preferred soft cap on RDM deferrals over a hard cap because a hard cap fails to fully resolve the Company's disincentive problem with respect to the promotion of conservation and energy efficiency. According to Xcel, during periods in which the Company expects the cap to affect deferrals, it faces the same disincentive to promote energy efficiency that it faced in the absence of the RDM. In addition, Xcel stated that hard caps are rarely used in electric decoupling mechanisms.[83] In an examination of decoupling mechanisms of other electric utilities, Xcel found that only 2 of the 25 decoupling mechanisms have a hard cap on deferrals and more than half of the mechanisms have no cap at all.[84]

Department

The Department recommended that the Commission approve no cap on RDM billing rate decreases, and a hard cap on RDM billing increases of no greater than 3 percent of total customer group revenue, including fuel and all applicable riders.[85]

The Department estimated that a 3 percent hard cap would limit the revenue collected by RDM billing rate increase to approximately $27 for residential customers and $35 for residential customers with space heating.[86]

The Department stated that Xcel's proposed "soft cap" is not a cap since it would not change the size of a RDM billing increase, just the timing of it. In other words, according to the Department, what the utility does not collect in one year, it would collect in the next.[87]

The Department stated that Xcel's focus on asking for larger caps is misguided. According to the Department a 3 percent hard cap would limit ratepayers' exposure to potentially large RDM billing rate increases. However, the Department's analysis indicated that over the ten year period analyzed, enforcement of the 3 percent cap would not have limited any billing rate increases under full decoupling. Under partial decoupling the 3 percent cap would have limited RDM Billing rate increases only to the residential space heating customer class, and only for two years for a total of $905,000.[88]

The Department conceded that AARP's 2 percent cap may do a better job of protecting ratepayers than the 3 percent cap. However, the Department suggested that the balance for the Commission to strike, as to the type and size of the cap, is the protection of ratepayers vs. the Commission's goals regarding energy conservation. The Department concluded that the 3 percent hard cap strikes a reasonable balance between the two objectives.[89]

[82] Ex. 110, Hansen Rebuttal, p. 9.
[83] *Id*. p. 10.
[84] Ex. 109, Hansen Direct, Schedule 2.
[85] Ex. 417, Davis Direct, p. 38.
[86] *Id*., p. 36.
[87] *Id*., p. 33.
[88] Ex. 419, Davis Surrebuttal, p. 9.
[89] *Id*., 9.

AARP

AARP stated that Xcel's 5% soft cap on its RDM does not go far enough to protect consumers. According to AARP, consumers expect utility bills that are reasonable, stable and predictable, and RDM billing rate increases should not threaten those expectations or energy affordability. AARP recommended that Xcel should cap the level of RDM billing rate increases that can occur in a 12-month period at 2% of excess revenues. Further, AARP agrees with the OAG that the cap on RDM billing increases should not include fuel and other riders.[90]

OAG

The OAG is in agreement with AARP that Xcel's proposed rate adjustment cap does not do enough to protect ratepayers for the following reasons: [91]

- Xcel's proposed adjustment includes the cost of fuel and all applicable riders;
- The cap is set too high by using 5% of total customer group revenue; and
- The cap should be a hard cap that does not allow the excess deferral amount to be carried over to the following year.

The OAG stated that the adjustment should not be based on the cost of fuel and all applicable riders. According to the OAG, including the cost of fuel and all applicable riders excessively increases the magnitude of the billing rate increase that Xcel could apply.[92]

The OAG stated that the billing rate increase caused by an under collection of total revenues of 5% would increase Residential rates from 4.75% to over 6% depending on the customer's volumetric usage. Further, the OAG stated that a similar under collection would increase Small General Service class rates by approximately 4.25% to just under 6% depending on the customer's volumetric usage.[93]

The OAG also stated that having deferral amounts carry over from year to year confuses customers and makes the regulatory process more arduous.[94]

The OAG agreed with the Department and recommended a hard cap equal to 3% of total revenue, not including fuel and applicable riders. In addition, the OAG advised the Commission to also consider a lower hard cap as AARP recommended.[95]

Response of CEI and Xcel to the Department, AARP, and OAG.

[90] Post-Hearing Brief of AARP, September 23, 2014, pp. 17.
[91] Ex. 375, Nelson Direct, p. 56-58.
[92] *Id.*
[93] *Id.*
[94] *Id.*
[95] Ex. 376, Nelson Rebuttal p. 39.

CEI stated that it did not agree with the hard cap over a soft cap, because it would have the effect of preventing decoupling from fully achieving its principal purpose. According to CEI, the hard cap would reintroduce the possibility that sales reductions would prevent the company from recovering its authorized revenue requirement. CEI stated that Xcel would retain part of the throughput incentive, if a hard cap were in place.

CEI stated that the "soft cap" proposed by Xcel is a better way to avoid unintended consequences in terms of annual rate impacts associated with decoupling, because it protects customer interests in bill stability without compromising the mechanism's effectiveness in breaking the link between the company's financial health and its retail commodity sales.[96]

Xcel stated its proposed soft cap acts a means of limiting the variability in customer rates, is reasonable overall and should be adopted. [97] Xcel stated further that the purpose of the soft cap is to limit the variability of customer rates and this ensures that rates will not increase by more than the cap percentage in a given year.

Xcel also stated it disagrees with the OAG that a hard cap will cause customer confusion. Xcel stated that a soft cap is no more or less confusing to customers than a hard cap.[98]

Xcel agreed with CEI that a hard cap reintroduces a utility's disincentive to promote conservation. [99] Xcel explained that during periods in which the Company expects the cap to affect deferrals, it faces the same disincentive to promote energy efficiency that it faced in the absence of the RDM.[100]

The Department did not agree that a hard cap would reintroduce Xcel's disincentive to promote energy savings because the Company's DSM financial incentive mechanism is set at a level that makes it cost-effective for the Company to achieve higher levels of energy savings, even with a 3 percent hard cap.[101]

According to the Department, it would be irrational for the Company to cut back on its energy savings achievements even if it appeared that a hard cap would impact the Company's RDM billing adjustments. The Department explained that Xcel can make more money by saving a marginal unit of energy than by making additional sales.[102]

In addition, the Department pointed out that the Commission approved hard caps for MERC and for CenterPoint Energy as part of their decoupling pilot programs.[103]

ALJ Report

[96] Ex. 294, Cavanagh Rebuttal, pp. 4-5.
[97] Xcel Post Hearing Brief, September 23, 2014, p. 150.
[98] Ex. 110, Hansen Rebuttal, p. 11.
[99] *Id.*
[100] *Id*., p. 10.
[101] Ex. 419, Davis Surrebuttal, p. 6.
[102] *Id*., pp. 3-6.
[103] *Id*., p. 7.

The ALJ recommended that the Commission modify Xcel's proposed RDM to include a 3 percent hard cap on all revenues, including fuel and applicable riders as recommended by the Department. Specifically, the ALJ report states the following:[104]

> 933. The Administrative Law Judge concludes that the Company's proposed soft cap on RDM billing adjustments would place an unreasonable burden on ratepayers. The Administrative Law Judge also finds that the Company has not shown a need for more than a 3 percent cap. Based on data from 2009-2013, only the Residential with Space Heating ratepayers would have exceeded a 3 percent cap, and that cap would have been exceeded only in one year, 2012.
>
> 934. Therefore, the Administrative Law Judge recommends that the Commission adopt the Department's 3 percent hard cap on all revenues, including fuel and applicable riders, as part of the Company's RDM. This recommendation balances the need for the Company to earn its full authorized revenue with the requirement that ratepayers not be adversely affected, and is reasonable given that this electric RDM program would be the first for an electric utility in Minnesota.

The ALJ noted that, because the recommended three percent hard cap includes fuel and applicable riders, it is a larger cap than it would be if it excluded those amounts.[105]

Exceptions to the ALJ Report

AARP stated it does not believe that the ALJ recommended adoption of the Department of Commerce's proposed 3% hard cap for a decoupling pilot program goes far enough to mitigate consumer impacts. The AARP stated it continues to advocate for a 2% hard cap, excluding fuel and applicable riders. The AARP recommended that, if the Commission ultimately adopts a RDM pilot program, the wording of ALJ Findings 933 and 934 be revised to replace the recommended 3% hard cap with a recommended 2% hard cap.[106]

The OAG recommended the OAG recommended that any decoupling program authorized by the Commission include a hard cap of one percent on RDM billing rate increases to mitigate any negative impacts on ratepayers. Specifically, in the event that the Commission elects to implement a decoupling program, the OAG recommended that Finding 934 be modified as follows:[107]

> 934. ~~Therefore, the Administrative Law Judge recommends that the Commission adopt the Department's 3~~ The Commission will adopt a 1 percent hard cap on all revenues, including fuel and applicable riders, as part of the Company's RDM. This recommendation balances the need for the Company to earn its full-authorized revenue with the requirement that ratepayers not be

[104] ALJ's FINDINGS OF FACT, CONCLUSIONS OF LAW, AND RECOMMENDATIONS, December 26, 2014, ¶¶ 933-934,, p. 210. [footnotes removed]
[105] *Id*. fn 1397.
[106] AARP's EXCEPTIONS TO THE ALJ Report, January 20, 2015, pp. 14-15.
[107] The OAG's EXCEPTIONS TO THE ALJ Report, January 20, 2015, pp. 35-36.

adversely affected, and is reasonable given that this electric RDM-program would be the first for an electric utility in Minnesota.

Xcel disagreed with the ALJ's recommendation that the Commission adopt the Department's hard cap proposal and requested the Commission order Xcel to implement its RDM with a soft cap.

Xcel stated a hard cap is problematic for two reasons:

1) A hard cap reintroduces a disincentive to promote energy efficiency and therefore undermines the purpose of decoupling.
2) A hard cap results in asymmetrical ratemaking that is unfair when paired with full decoupling.

Xcel stated that, under the Department's proposal, any excess revenue due to weather must be returned to customers, but Xcel is limited in its ability to collect any weather-related shortfalls. Xcel claimed this is a fundamentally unfair scenario where Xcel retains significant downside weather-related risk.

Xcel stated also that its soft cap proposal limits the variability of RDM adjustments and guarantees the Company remains indifferent to energy conservation at all usage levels, consistent with the statutory purpose of decoupling.

Further, Xcel stated again that the record shows that most electric decoupling mechanisms have soft caps or no caps at all. Xcel recommended that that ALJ Report Findings 868, 933 and 944 be amended as follows:

868. The Company stated that most electric decoupling mechanisms have soft caps or no caps ~~at all are used in the majority of jurisdiction where decoupling has been adopted.~~

933. ~~The Administrative Law Judge concludes that the Company's proposed soft cap on RDM billing adjustments would place an unreasonable burden on ratepayers. The Administrative Law Judge also finds that the Company has not shown a need for more than a 3 percent cap. Based on data from 2009-2013, only the Residential with Space Heating ratepayers would have exceeded a 3 percent cap, and that cap would have been exceeded only in one year, 2012.~~ The Company's proposed soft cap is a reasonable means of managing the variability of RDM adjustments from year to year and should be adopted. A hard cap reintroduces a disincentive to promote energy efficiency, thereby undermining the purpose of decoupling. Further, the Department's reliance on the DSM financial incentive conflates two programs the legislature has deemed to be separate.

934. ~~Therefore, the Administrative Law Judge recommends that the Commission adopt the Department's 3 percent hard cap on all revenues, including fuel and applicable riders, as part of the Company's RDM. This recommendation~~

~~balances the need for the Company to earn its full authorized revenue with the requirement that ratepayers not be adversely affected, and is reasonable given that this electric RDM program would be the first for an electric utility in Minnesota.~~ The cap level and measurement proposed by the Company is consistent with national practice and should be adopted. If the Commission chooses to require the Company to implement full decoupling, then the cap should be set at 10 percent of base revenues.

Staff Comment

Staff believes that the parties have adequately addressed all aspects of the cap issue. Staff has no further comment.

c. Calculation of the RDM Adjustment

According to Xcel, a portion of the non-fuel revenue requirement is recovered through a fixed "customer charge" while the remaining revenue requirement is recovered through the volumetric energy charge for the residential and small C&I classes. Xcel stated that the revenue requirement recovered through the non-fuel energy charge, on a per-customer basis, is the revenue baseline for calculating the decoupling deferrals.[108] Xcel stated that the customer charge revenue is excluded from the RDM because it is already decoupled from customer sales.[109]

As was described above, under Xcel's proposal, each month, the RDM deferral would be calculated as the difference between the monthly baseline revenue and the revenue collected under the volumetric rates from those customers.[110]

Every twelve months, the cumulative deferral for each customer group will be incorporated into customer rates for the following year by dividing the deferral amount by the forecast of sales to the customer group. [111]

ECC

ECC recommended that the deferral should be calculated as a percentage of the Company's total residential energy revenue, rather than approving a per-kWh charge through which to collect the RDM shortfall.[112]

ECC stated that low-use low-income households are adversely affected by the Company's decoupling mechanism in that the greatest usage reduction potential for the Company's customers lies with the larger usage of higher income customers. According to ECC, the revenues that are likely to be reduced will occur for non-low-income accounts, with a resulting

[108] Ex. 109, Hansen Direct, p. 10.
[109] *Id*., p. 12.
[110] *Id*., p. 10. Staff notes that under Xcel's partial decoupling proposal, the RDM deferral would be calculated as the difference between the monthly baseline revenue and the weather-normalized revenue collected under the volumetric rates from those customers.
[111] *Id*.,
[112] Ex. 234, Colton Direct, p. 35.

disproportionate transfer of those system costs to low-income customers as the lost revenue is transferred to lower use customers through the RDM.[113]

ECC stated that this transfer problem arises because Xcel proposed to bring the deferred revenue into rates on a uniform per-kWh charge through its calculation of the RDM adjustment for each customer group, which divides the cumulative deferral amount by the forecast of sales for the customer group. According to ECC, a revenue shortfall, in other words, is passed through on a flat per kWh basis to all future kWh.[114]

ECC stated that moving to a percentage adjustment on the total bill, rather than a per-kWh adjustment, addresses the transfer problem it identifies. ECC proposed that the adjustment to future bills should then be calculated as a percentage of the customer's total energy bill. According to ECC, to the extent that customers are higher use customers, receiving a correspondingly higher rate, they will receive somewhat more of the RDM adjustment and to the extent that customers are lower-use customers, receiving a correspondingly lower rate, they will receive somewhat less of the RDM adjustment.[115]

AARP

AARP stated that the Commission should apply any RDM billing adjustments in a manner that benefits those customers who use the least energy; therefore the Commission should consider ECC's recommendation to calculate the RDM deferral as a percentage of the Company's total residential energy revenue, with the adjustment to future bills then calculated as a percentage of the customer's total energy bill.[116]

ALJ Report

The ALJ recommended that the Commission adopt Xcel's proposed method of calculating the RDM billing adjustment. The ALJ report stated the following:[117]

> 940. The Administrative Law Judge concludes that ECC's recommendation that RDM billing adjustments be calculated as a percentage of the customer's total energy bill is not well supported in the record. The Company has demonstrated that its per kWh approach based on monthly billings to specific customer groups is most likely to minimize month-to-month variations in adjustments and to prevent cross-class subsidization. In addition, low-use customers would receive smaller increases under this method. Therefore, the Administrative Law Judge recommends that the Commission adopt the Company's proposed method of calculating RDM billing adjustments.

Exceptions to the ALJ Report

[113] Id., p. 33.
[114] *Id*.
[115] *Id*., p. 14.
[116] Post-Hearing Brief of AARP, September 23, 2014, pp. 18.
[117] ALJ's FINDINGS OF FACT, CONCLUSIONS OF LAW, AND RECOMMENDATIONS, December 26, 2014, ¶ 940, p. 211.

ECC did not file exceptions to the ALJ report.

Staff Comment

Staff agrees with the ALJ that the ECC's recommendation is not well supported in the record. While the Commission may wish to consider applying the RDM billing adjustment in a manner that benefits those customers who are low-use and low-income, ECC did not make it clear how its proposed calculation of the RDM adjustment would function and it did not provide analysis that compared its calculation of the RDM billing adjustment with Xcel's proposal. In addition, ECC did not demonstrate the magnitude of the impact on customers its proposed modification would have.

d. Customer Protections

AARP

If the Commission were to approve a decoupling mechanism, AARP recommended the following provisions be added to protect consumers:[118]

- Do not adopt decoupling absent a strong and increased commitment by the utility to provide cost-effective demand-side programs and measures;
- Conduct regular rate cases;
- Prevent subsidization;
- Establish performance requirements;
- Limit the frequency of rate adjustments;
- Apply billing adjustments in a manner that benefits customers who use the least energy;

AARP stated that Xcel's proposed RDM would result in a subsidization of candidates for DSM by low-use and other customers. AARP also stated that residential rate-payers would experience disproportionate rate increases if large commercial and industrial sales decline at a faster rate than residential sales, for any reason. Consequently, Xcel's proposed RDM would shift the risk of a decline in large customer sales automatically to those subject to the RDM, according to AARP.[119]

AARP also stated that the proposed RDM does not assure that all residential customers can participate equally, yet treats all residential customers as equally responsible for DSM costs.[120]

AARP stated that before the commission approves an RDM for Xcel, it should require the utility to make a filing assuring the commission of the specific ways in which Xcel will produce incremental energy savings, beyond those called for in the triennial plan. Further, AARP suggested that Xcel should take responsibility for the extent to which such increases are not cost-effective. In addition to making Xcel's RDM a pilot program and placing a hard cap on the

[118] Ex. 310, Brockway Direct, p. 18.
[119] *Id*., p., 22.
[120] *Id*.

billing rate increase at 2%, AARP recommended that the Commission require the following from Xcel, if a decoupling mechanism is approved:[121]

- Xcel shall make a filing assuring the Commission of the specific ways in which:
  - Xcel will produce incremental energy savings, beyond those called for in the triennial CIP plan,
  - Performance requirements are established directly linking any RDM ratemaking treatment to proven utility-sponsored DSM savings, and
  - The programs adopted in fulfillment of the Company's DSM commitments assure that all residential customers can participate in DSM equally.

- The Commission should prevent subsidization due to RDM billing rate increases imposed upon low-use residential customers,

Xcel

Xcel stated that AARP's concerns indicate that it has an incorrect understanding of the Company's RDM proposal and/or its effect on customers. Specifically, Xcel provided an example illustrating how its proposed RDM would affect residential customers when a RDM billing rate increase is highest (5% of base revenues) and concluded the following:[122]

- Customers can reduce their bill through conservation (net of RDM billing adjustments) even if they conserve less than the average amount;
- The percentage of bill increases from RDM bill rate increases are smaller for low-use customers than high-use or average-use customers.
- Low-use customers can conserve approximately enough to offset the effect of the RDM billing rate increase by replacing one 60-watt incandescent light bulb with an equivalent compact fluorescent light bulb (CFL).

Xcel also stated that the cross-subsidy concerns raised by AARP are unwarranted for two reasons:[123]

- Large commercial and industrial customers are excluded from the RDM; and
- Xcel's proposed RDM uses within-class deferral and rate change calculations.

Xcel explained that for the classes included in the RDM proposal (Residential, Residential Space Heating, and Commercial Non-Demand), separate RDM deferrals and rate changes are calculated for each customer group, using only changes in usage per customer for that customer group; therefore, Xcel's proposed RDM design does not allow for subsidies across rate groups.[124]

[121] Post-Hearing Brief of AARP, September 23, 2014, pp. 17-18.
[122] Ex. 111, Hansen Surrebuttal, p. 6.
[123] Ex. 110, Hansen Rebuttal, p. 22.
[124] *Id.*

Xcel stated further that, with or without the RDM, the Residential and Commercial Non-Demand customers will pay for approved utility fixed costs in direct proportion to their usage. [125]

ALJ Report

The ALJ did not recommend that the Commission place any of the AARP proposed conditions on the approval of a decoupling pilot program. The ALJ Report stated the following:[126]

> 943. Based on the record, the Administrative Law Judge respectfully recommends that the programs advanced by AARP not be required as a condition of approving a decoupling pilot program for the Company. The Company has shown its proposal is designed in a manner that addresses AARP's concerns regarding cross-subsidization and low-use customers. If the Commission believes the Company should increase its commitment to cost-effective DSM programs, the Administrative Law Judge recommends that the Commission require that issue be addressed as part of the Company's CIP filings.

Exceptions to the ALJ Report

AARP stated that Xcel's RDM should be conditioned upon an increased commitment by Xcel to provide cost-effective demand-side programs and measures. AARP recommend that the Commission should strike ALJ Finding 934, replacing it with a requirement to make such commitments as a condition of being granted a RDM.[127]

AARP disagreed with the ALJ's recommendation that if the Commission believes that Xcel should increase its commitment to cost effective DSM programs, then Xcel should be required to address this issue as part of the utility's CIP filings. Instead, AARP stated it believes that no RDM should be adopted without being linked to increased commitment to energy savings.[128]

Specifically, AARP repeated its request from its initial brief that the Commission should require Xcel to make a filing assuring the Commission of the specific ways in which:[129]

a) Xcel will produce incremental energy savings, beyond those called for in the triennial CIP plan,
b) Performance requirements are established directly linking any RDM ratemaking treatment to proven utility-sponsored DSM savings, and
c) Programs are adopted in fulfillment of the Company's DSM commitments which assure that all residential customers can participate in DSM .

[125] *Id*.
[126] ALJ's FINDINGS OF FACT, CONCLUSIONS OF LAW, AND RECOMMENDATIONS, December 26, 2014, ¶ 943, p. 211-212.
[127] AARP's EXCEPTIONS TO THE ALJ Report, January 20, 2015, pp. 13-14.
[128] *Id*.
[129] *Id*., Ex. 310, Brockway Direct, p. 17.

G. Decision Alternatives - Design of the Decoupling Mechanism

1. Three-Year Pilot vs. Ongoing Program;

a. Approve Xcel's RDM as a three-year Pilot; or
b. Approve Xcel's RDM as an ongoing program.

2. RDM Billing Rate Increases if Xcel Fails to Achieve Energy Savings Equal to 1.2 Percent of Retail Sales;

a. Do not allow RDM billing rate increases if Xcel fails to achieve energy saving equal to 1.2 percent of retail sales; or
b. Take no action.

3. *Full vs. Partial Decoupling;*

a. Approve Xcel's proposed partial RDM; or
b. Modify Xcel's proposed partial RDM to be a full RDM.

4. *CAP on RDM Billing Rate Increase – Type and Size;*

a. Approve a cap on RDM billing rate increases as a percentage of base revenues, excluding fuel and all applicable riders;

b. Approve a cap on RDM billing rate increases as a percentage of total revenues, including fuel and all applicable riders;

c. Do not approve a cap;

d. **Type of Cap – Hard Cap vs. Soft Cap;**

i. Approve a hard cap on RDM Billing Rate Increases; or
ii. Approve a soft cap on RDM Billing Rate Increases.

e. **Size of Cap;**

i. Approve a 2% cap;
ii. Approve a 3% cap;
iii. Approve a 5% cap; or
iv. Approve a 10% cap.

5. Calculation of the RDM Adjustment; and

a. Calculate the RDM deferral as a percentage of the Company's total residential energy revenue, rather than approving a per-kWh charge through which to collect the RDM shortfall (ECC Proposal); or

b. Take no action.

6. Customer Protections (AARP Proposals)

a. Require Xcel to make a filing assuring the Commission of the specific ways in which:

i. Xcel will produce incremental energy savings, beyond those called for in the triennial CIP plan,
ii. Performance requirements that are established directly linking any RDM ratemaking treatment to proven utility-sponsored DSM savings, and
iii. Programs adopted in fulfillment of the Company's DSM commitments which assure that all residential customers can participate in DSM equally.

b. Take No Action.

(Note: These decision alternatives correspond to alternatives V, B (1 through 8) on pp. 32-33 on the deliberation outline.)

H. List of Witnesses

1. **Xcel –** Daniel Hansen

    a. Exhibit No. 109 – Direct
    b. Exhibit No. 110 – Rebuttal
    c. Exhibit No. 111 – Surrebuttal

2. **ECC** – Roger Colton

    a. Exhibit No. 234 – Direct
    b. Exhibit No. 237 – Rebuttal
    c. Exhibit No. 239 – Surrebuttal

3. **The ICI Group –** William Glahn

    a. Exhibit No. 250 – Direct
    b. Exhibit No. 251 – Surrebuttal

4. **CEI** – Ralph Cavanaugh

    a. Exhibit No. 290 – Direct
    b. Exhibit No. 293 – Rebuttal

5. **AARP** – Nancy Brockway

    a. Exhibit No. 310 – Direct
    b. Exhibit No. 311 – Rebuttal
    c. Exhibit No. 312 – Surrebuttal

6. **OAG –** Ron Nelson

    a. Exhibit No. 375 – Direct
    b. Exhibit No. 376 – Rebuttal
    c. Exhibit No. 377 – Surrebuttal

7. **The Department** – Christopher Davis

    a. Exhibit No. 417 – Direct
    b. Exhibit No. 418 – Rebuttal
    c. Exhibit No. 419 – Surrebuttal