STATE OF MINNESOTA PUBLIC UTILITIES COMMISSION

March 24, 2015

Docket No. E-002/GR-13-868

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

Enclosed is an addendum to Volume VI (Rate Design) of VII of the Staff Briefing Papers for docket 13-868. The document, which was discussed with commissioners in briefings, provides an example of how Xcel's proportional adjustment formula can be used to update the class revenue apportionment following a change in the revenue requirement. As was explained to commissioners, the example is intentionally simplified, focusing on one class (Residential) for one year (2014) and considering only two time periods (The Department's Direct Testimony and Xcel's January 16, 2015 Compliance Filing).

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A

- Xcel estimates *current revenues* at$2,788.7 (million) with **$1,000.4** (**35.91%**) coming from Residential class.
- Xcel estimates its *revenue requirement* will be $2,981.1. This means overall they will need to collect **6.90%** more revenues ((rev requirement – current revs) / current revs).

B

Based on these figures:

- The Department apportions $1,072.3, or **35.97%** to the Residential class. This would produce a rate increase of **7.08%** for Residential customers, which is slightly higher than the increase for all customers (6.90%).

C

Then, **two things change**:

- Xcel updates its *current revenues* (before they used a forecast of 2014 revenues, but by early 2015 they had the *actual* figures). The actual *current revenues* were $2,736.3, with **$997.7** (**36.46%**) coming from the Residential class.
- The ALJ recommends a reduced *revenue requirement* of $2,805.9. This means they will now need to collect only **2.54%** more revenues, which is down from 6.90% in Xcel's initial request.

D

At this point, the Department doesn't have the opportunity to develop a new apportionment to adjust for these changes, because the ALJ's report is already in. Instead, Xcel uses this formula to update the Department's initial allocation:

$$Current\ Revs_{revised} \times (1 + Proposed\ Rate\ Increase\ (in\ \%)_{initial} \times \frac{Total\ Rev\ Increase_{revised}}{Total\ Rev\ Increase_{initial}})$$

This adjusts the Department's revenue apportionment for the Residential class to $1,023.7 or **36.49%**.
This produces a rate increase of 2.61%, which is slightly higher than the increase for all customers (2.54%).

Result

- The adjustment formula changes the Department's apportionment considerably: instead of paying **35.97%** of revenues, as the Department initially allocated, they are now assigned **36.49%**. This seems small in percent, but in dollars it means the Residential class will be assigned about **$30 million more** over the two years.
- The adjustment formula focuses on the *proposed rate increase*, rather than the *revenue apportionment*. So, it maintains not the *apportionment* but the relationship between the Residential class's *rate increase* and the total *rate increase*.
    - Staff (Andrew) contends it's more appropriate to focus on the *apportionment*, which is the primary purpose, than the *rate increase*, which is a secondary calculation, and was based on the old current revenue figures.