

STATE OF MINNESOTA  
BEFORE THE  
MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	Chair
David C. Boyd	Commissioner
Nancy Lange	Commissioner
Daniel Lipschultz	Commissioner
Betsy Wergin	Commissioner

IN THE MATTER OF THE APPLICATION OF NORTHERN STATES POWER COMPANY, FOR AUTHORITY TO INCREASE RATES FOR ELECTRIC SERVICE IN THE STATE OF MINNESOTA	DOCKET NO. E002/GR-13-868  <b>NOTICE OF A COMPLIANCE PROPOSAL RELATED TO INTERIM RATES</b>
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**INTRODUCTION**

Northern States Power Company, doing business as Xcel Energy, submits to the Minnesota Public Utilities Commission this Notice of a Compliance Proposal Related to Interim Rates. While we believe the Commission does not need to take any formal action on our proposal until it deliberates on the merits of our rate case, or our compliance filing, we respectfully request the Commission initiate a notice period, to the extent it believes one is necessary, so that our stakeholders can provide feedback on our proposal. Beginning this dialogue now make sense as the compliance window is historically abbreviated and there is additional time before Commission deliberations in light of the Company's recent second waiver of applicable statutory deadlines.

When we began this proceeding, our interim rate request did not include a specific change to account for the second year of our multi-year rate plan (MYRP). Instead, we indicated to the Commission that we would return with a proposal on how to deal with interim rates for the 2015 step year at a later time. Prior to submitting this filing, we analyzed modifying our interim rate schedule to address the second year of our MYRP, or requesting a change to the timing of the effective date of a possible surcharge. At this time, we are not bringing either of those alternatives forward; instead we are suggesting a proposal that builds upon the way in which we have approached calculating interim rate refunds but recognizes the nuances that arise with a MYRP.

Specifically, our proposal seeks to calculate the interim rate refund by comparing the interim rate revenues collected from January 1, 2014 until the date of the

Commission's final rate determination to the two sets of final rates (one set for the 2014 test year and the other for the 2015 test year) authorized by the Commission for that same period of time. The difference between these amounts would determine whether a refund would exist. To the extent there is a refund, we will refund it consistent with Minnesota law and the Commission's decision in this case.

Mechanically our proposal is consistent with how we have calculated an interim rate refund in prior cases where the Commission has ordered rate changes effective for the year following the test year. For example, in our 2005 rate case and 2010 rate case, the interim rate refund incorporated post-test year changes in revenue requirements. Our proposal in this case builds on this framework while acknowledging that rates will change from the 2014 test year and the 2015 step year but how that translates to interim rate changes have not been clearly spelled out in the Commission's Order related to multi-year rate plans, and Minn. Stat. § 216B.16, subd. 3 (Interim Rate Statute) and subd. 19 (MYRP Statute).

We believe calculating an interim rate refund as provided by our proposal is consistent with Minnesota law and will minimize confusion since it simply builds on the way we calculate interim rate refunds for a traditional rate case. However, we believed it was important to notify the Commission and parties of our intent and provide opportunity for comments to the extent the Commission desires.

## **BACKGROUND**

On November 4, 2014, the Company submitted a request to increase its electric retail rates through the use of the MYRP. The Commission accepted our filing and authorized the Company to implement an interim rate increase of approximately \$127 million during the pendency of this proceeding.<sup>1</sup> In referring the matter to the Administrative Law Judge, the Commission noted that a ten-month procedural schedule would be insufficient due to several factors.<sup>2</sup> The Commission therefore suspended the Company's proposed rates for ten months and 180 days in accordance with Minn. Stat. § 216B.16, subds. 2(a), 2(f), and 19(d).<sup>3</sup> This would result in any new rates taking effect no later than March 3, 2015.<sup>4</sup> During the course of this proceeding, the Company waived this statutory deadline twice so that the new deadline is now May 8, 2015.

As has been noted throughout this rate case, we are the first utility to propose a MYRP under Minnesota law. As such, we are navigating new territory in an effort to

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<sup>1</sup> See January 2, 2014 Order Accepting Filing and Suspending Rates, and Order Setting Interim Rates.

<sup>2</sup> See January 2, 2014 Notice and Order for Hearing.

<sup>3</sup> See January 2, 2014 Notice and Order for Hearing.

<sup>4</sup> See January 2, 2014 Notice and Order for Hearing.

build this tool and offer customers greater rate predictability, find opportunities for rate moderation, improve regulatory efficiency, and enable a longer-term view of Company investments. As the case progresses and 2014 comes to a conclusion, we are faced with the determination of how to handle the second year of interim rates for a multi-year proposal. In fact, we mentioned the prospect of having this dialogue about how to handle interim rates in the second year of this MYRP in our interim rate petition. We are cognizant of the interests of our customers and the Company and the need to find a proposal that balances these interests within the bounds of Minnesota statutes and Commission orders.

Prior to submitting this filing, we evaluated the option of requesting an interim rate increase for the second year of this MYRP, or requesting the surcharge date be effective as of March 3, 2015, which is the date by which the Commission would have issued a final determination in this case but for our two statutory deadline waivers. While we believe either alternative is supported under Minnesota law, we ruled out such a request at this time. We believe allowing for this case to continue to evolve will provide us, as well as our stakeholders, with better information as to which, if any, additional interim rate proposal is taken next. Should we bring forward another proposal, we will work with our stakeholders to understand their respective perspectives.

### **INTERIM RATE REFUND PROPOSAL**

Based on the circumstances surrounding this case, we are proposing that the interim rate refund be calculated by taking the difference between: (1) the sum of the total revenue collected for the months that interim rates were in effect and (2) the total amount of revenue that would have been collected had final revenue requirements for 2014 and final revenue requirements for 2015 been effective over the course of the period beginning January 1, 2014 through the Commission's final determination. Since this is a two-year MYRP, this means final authorized rates will likely be different from the 2014 test year and the 2015 step year, and we will incorporate that change into our calculation starting January 1, 2015. If the interim revenues actually received exceed the final Commission approved revenue requirements for the entirety of the time period, the difference would be refunded with interest consistent with the Interim Rate Statute, subject to any modifications the Commission may order.

We believe that our proposal is appropriate for two reasons.

First, it is consistent with the Interim Rate Statute. While the Interim Rate Statute, MYRP Statute, and Commission's Order regarding multi-year rate plans are not fully in sync on how to address changes to interim rates, including calculating interim rate refunds, in a MYRP, the Interim Rate Statute allows for interim rates and requires the

utility to refund the excess above final rates to customers. By way of background, in a traditional rate case, we ascertain whether we have a refund obligation by comparing the interim rate revenues we receive during the proceeding to the final rates authorized by the Commission. This approach has been accepted in our recent electric rate cases where we have had separate revenue requirements for both the test year and the year beyond the test year. This methodology complies with a narrow interpretation of the Interim Rate Statute without a need to overlay the MYRP statute.

Second, our proposal, compared to a second interim rate, will streamline and simplify the customer billing process. By avoiding an increase in the interim rate, this approach reduces customer impact during the rate setting process, increases rate stability and rate predictability during the process leading to a final determination.

### **CONCLUSION**

The Company appreciates the opportunity to be able to propose the use of the MYRP, an innovative rate-making tool, in this proceeding. As the first utility to make use of a multi-year rate plan, we are learning, along with our stakeholders, that there are opportunities to refine, and, at times, develop the rules that will shape the use of a multi-year rate plan in the future.

With this filing, we lay out our proposal for the method to calculate an interim rate refund for a multi-year rate plan. Specifically, we are proposing to determine whether an interim rate refund will be due based on a comparison of interim rate revenues collected during the pendency of this proceeding and the final rates authorized during that same period of time. We respectfully request the Commission commence a comment period, if it determines one is needed, about our proposal for calculating an interim rate refund for this MYRP. We look forward to continuing this discussion with the Commission and our stakeholders.

Dated: November 13, 2014

Northern States Power Company