

**STATE OF MINNESOTA  
OFFICE OF ADMINISTRATIVE HEARINGS  
FOR THE MINNESOTA PUBLIC UTILITIES COMMISSION**

**In the Matter of the Application of            )  
Northern States Power Company for        )  
Authority to Increase Rates for Electric   )  
Service in the State of Minnesota        )**   **OAH Docket No. 68-2500-31182  
PUC Docket No. E-002/GR-13-868**

**INITIAL BRIEF OF AARP**

**September 23, 2014**

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## II. INTRODUCTION

AARP is grateful for the opportunity to formally intervene and participate in this rate case, and hereby respectfully offers this Initial Brief for the consideration of Judge Cochran and the Minnesota Public Utility Commission (“Commission”). AARP is an organization that advocates for people who are 50 years of age and older, seeking to promote their independence, choice and control in ways that are beneficial and affordable to them and to society as a whole. AARP has determined that advocacy for reasonable utility rates and service for seniors is one of its priority issues. AARP has 652,000 members in Minnesota, many of whom are residential electric customers of Northern States Power Company d/b/a Xcel (“Xcel” or “Company”).

This \$291 million Xcel rate case filing proposes to increase residential electric rates by more than 12% (in two steps). This request comes on the heels of previous residential electric rate increases of 8.2%, 5.1%, 2.5%, and 4.6%, awarded in years 2007, 2010, 2012, and 2013, respectively. Many Xcel customers have not seen similar percentage increases in their own household wages or benefits over that time period. AARP urges the Commission to carefully scrutinize the evidence of financial need for this utility, so as to keep the overall revenue requirement as low as reasonably possible.

Furthermore, AARP respectfully asks that the Commission favorably consider the testimony of its witness Nancy Brockway when determining the proper rate design in this rate case. AARP supports retention of the current residential customer charges, applying any new increases to volumetric components only. AARP also urges the Commission to reject the Company’s RDM “decoupling” proposal as unfair. Both of these issues could have particularly serious impacts on low-use residential customers.

## ARGUMENT

- III. THE COMMISSION SHOULD ORDER THE COMPANY TO ADOPT A JUST AND REASONABLE ELECTRIC RATE DESIGN THAT PROTECTS RESIDENTIAL CUSTOMERS, PARTICULARLY LOW-USE RESIDENTIAL CUSTOMERS.
- a. AARP recommends that the Commission reject the Company's decoupling proposal as unnecessary, unfair, and unreasonable.

Xcel is requesting permission to implement a revenue-per-customer decoupling mechanism ("RDM") on its residential customers, referring to its proposal as a "partial" decoupling mechanism.<sup>1</sup> Xcel witness Hansen calls it a "partial" RDM because all changes in revenues per customer (except weather-related impacts on sales) would be tracked.<sup>2</sup> The cumulative impact would be adjusted annually and recovered from customers over the following RDM year.<sup>3</sup> If shortfalls exceed an annual (soft) 5% cap, the unrecovered amounts would be deferred for inclusion in future RDM charges where room exists under that year's 5% cap.<sup>4</sup>

AARP contends that this RDM proposal is unnecessary and that it unfairly shifts risks to residential customers, particularly low-use customers who are less able to benefit from Demand Side Management ("DSM") programs<sup>5</sup>, it discourages customer conservation efforts, and it is otherwise unreasonably designed to the economic detriment of ratepayers, as explained in greater detail herein and in the testimony of AARP expert witness Nancy Brockway that was admitted into the record of this case.

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<sup>1</sup> Daniel Hansen Direct, Exh. 109, p. 2.

<sup>2</sup> The Office of Attorney General witness Ron Nelson discusses the fairness of "partial" versus "full" decoupling. See Exh.325, p. 56. AARP does not address that issue in depth in this brief.

<sup>3</sup> Exh. 109, p. 2.

<sup>4</sup> Id.

<sup>5</sup> Exh. 310, .4.

- i. The Company's decoupling proposal has been unnecessary, and continues to be unnecessary, in order to support its demand side management (DSM) goals.

Xcel witness Hansen claims that the Company's RDM proposal is needed to address a "financial disincentive" to promote conservation and energy efficiency that exists because of the loss in profits that now occurs if revenue from the volumetric portion of rates is not high enough to cover the utility's fixed costs.<sup>6</sup> By eliminating the link between sales and revenues, he argues, the Company's proposed RDM will better align the Company's shareholder interests with the public policy goals of conservation and energy efficiency.<sup>7</sup> Interestingly, Mr. Hansen does not testify that its proposed RDM mechanism would be necessary in order for the Company to aggressively promote energy efficiency. In fact, he acknowledges that "the Company has thus far been willing to promote its DSM programs as effectively as it can in order to meet energy efficiency goals."<sup>8</sup>

AARP witness Nancy Brockway has extensive experience in utility regulation, particularly with regard to the regulatory issues surrounding utility energy efficiency, and she has been an ardent promoter of properly-structured DSM programs.<sup>9</sup> Ms. Brockway recommends that the Commission reject Xcel's RDM proposal, stating that revenue decoupling is neither a necessary nor a sufficient condition to increase energy efficiency in Minnesota.<sup>10</sup> She notes that numerous non-decoupling tools are available

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<sup>6</sup> Id.

<sup>7</sup> Id., pp. 2-3.

<sup>8</sup> Exh. 310, p. 10, Xcel Response to AARP IR 0011.

<sup>9</sup> See Exh. 310, pp. 1-3 and Schedule NB-1; Exh. 312, pp. 2-3. Ms. Brockway's experience spans nearly 30 years, from serving as a Commissioner for the New Hampshire PUC, and a staff expert in Maine PUC, to success as a nationally-recognized academic researcher in this field.

<sup>10</sup> Exh. 310, p. 7.

to policy-makers.<sup>11</sup> In fact, Minnesota has recently implemented many of these tools, including a strengthening of the minimum energy efficiency standards in its building code,<sup>12</sup> the legislative enactment of a strong utility energy efficiency requirement,<sup>13</sup> and adoption of regulatory trackers to recover efficiency costs as incurred.<sup>14</sup> The Minnesota state website also promotes customer use of federal efficiency tax credits.<sup>15</sup>

Under Minnesota law, Xcel must commit 2% of its gross revenues to programs to promote energy efficiency (costs that are recoverable through electric rates, if not actually granted special recovery status through a rider).<sup>16</sup> In addition, Xcel and other major utilities must have an annual energy-savings goal based upon gross annual retail energy sales, as modified by the Commissioner of Commerce.<sup>17</sup> Xcel files a plan with the Commissioner of Commerce every three years, outlining how it will fulfill the statutory requirement, and in 2013, the Commission approved a 1.3% demand-side management (DSM) target as part of the Company's 2011-2025 integrated resource plan (IRP).<sup>18</sup> This goal was adopted without Xcel imposing any decoupling mechanism on its consumers.

Mr. Hansen never testifies that this 1.3% target is unreasonable in light of the "disincentive" he points to related to obtaining savings. Mr. Hansen does not suggest that the triennial plan would need to be adjusted because it is currently too difficult to meet the 1.3% goal. Xcel's witnesses do not attempt to make any quantitative link

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<sup>11</sup> Exh. Pp. 7-8.

<sup>12</sup> <http://mn.gov/commerce/energy/topics/efficiency/Energy-Code.jsp>

<sup>13</sup> Minn. Stat. Section 16 216B.24, Energy Conservation Improvement.

<sup>14</sup> Conservation Improvement Program Adjustment Rider.

<sup>15</sup> <http://mn.gov/commerce/energy/topics/financial/Rebates-Credits.jsp>

<sup>16</sup> Exh. 310, p. 9.

<sup>17</sup> Minn. Stat. Section 16 216B.24.

<sup>18</sup> Company's response to AARP-0011; Docket No. E002/RP-10-825, *Order Approving Plan, Finding Need, Establishing Filing Requirements, and Closing Docket* (March 5, 2013).

between the triennial plan's energy efficiency targets and the financial health of the utility. The reality is that while, in theory, energy efficiency has a downward effect on a utility's revenues, there is little empirical evidence that the presence of a revenue decoupling mechanism is needed to ensure that Xcel will vigorously pursue energy efficiency and its DSM goals.<sup>19</sup>

There is evidence that decoupling has not been a driver for energy efficiency in Minnesota. The 2013 CenterPoint report on decoupling, required by the Commission in Minnesota Energy Resources Corporation's (MERC's) 2010 rate case, provides comparisons of pre-decoupling and post-decoupling activities as a condition for approving the decoupling proposal in that case.<sup>20</sup> The Compliance Filing Revenue Decoupling Evaluation Report for 2013, however, does not show any positive impact of that utility's pilot program decoupling *per se* on the utility's efforts.<sup>21</sup> Where the utility added programming, it did so in the context of the stakeholder discussions in which it was required to participate as a condition of approval of its decoupling proposal. It also eliminated some programs. CIP expenditures from 2012 to 2013 on residential programs actually fell, from \$4,493,831 to \$4,259,150.<sup>22</sup> Total CIP spending in 2013 for all classes fell by over 13% in comparison to the three year average "before decoupling" baseline.<sup>23</sup>

A statistical analysis has searched for a relationship between decoupling and increased efficiency, and failed to find any connection. In a discussion paper published

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<sup>19</sup> Exh. 310, p. 11.

<sup>20</sup> In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to Increase Rates for Natural Gas Service in Minnesota, Docket No. G-007,011/GR-10-977.

<sup>21</sup> Exh. 310, p. 13.

<sup>22</sup> Ibid. See Table B1.

<sup>23</sup> Id.

by Resources for the Future, entitled “Cost-Effectiveness of Electricity Energy Efficiency Programs”<sup>24</sup>, the researchers performed a variety of regression analyses to explore effects of ratepayer-funded utility and third party DSM spending on electricity demand at the utility level.<sup>25</sup> To test whether state-level revenue decoupling regulation leads to reduced demand, the authors included a categorical variable indicating its presence or absence.<sup>26</sup> They were unable to find a statistically significant relationship between decoupling and demand reduction efforts of utilities, at least not based on the data from 1989 through 2006.<sup>27</sup>

- ii. The Company’s RDM decoupling proposal would unfairly shift risk to consumers, particularly to low-use customers, who are less able to benefit directly from DSM.

Managing utility risk through ratemaking is a zero-sum endeavor. To the extent that the RDM decoupling proposal would alleviate the risk of revenue variability or volatility from the utility’s perspective, it would correspondingly transfer that risk of revenue variability or volatility onto consumers who must pay additional RDM rate adjustments.<sup>28</sup> Regardless of whether a decoupling mechanism is “full” or “partial” (excluding weather-related effects), there are several serious revenue risks that are not related to energy efficiency programs.

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<sup>24</sup> By Toshi Arimura (an associate professor at Sophia University, Tokyo, Japan), Shanjun Li (a fellow Resources for the Future), Richard G. Newell (then Gendell Associate Professor of Energy and Environmental Economics at Duke University, Nicholas School of the Environment), and Karen Palmer (senior fellow at Resources for the Future).

<sup>25</sup> *Ibid.* at p. 3.

<sup>26</sup> *Ibid.* at p. 17.

<sup>27</sup> *Ibid.* at 25.

<sup>28</sup> Exh. 310, p. 18.



One of these revenue risks relates to the potential for broad economic downturns.<sup>29</sup> Central Maine Power Company (“CMP”) famously pioneered revenue per customer decoupling in 1991.<sup>30</sup> Its initial three-year trial was discontinued as a result of substantial revenue deferrals under the RDM, amounting to over \$50 million.<sup>31</sup> This effect occurred because shortly after initiating decoupling, Maine suffered an economic downturn. The RDM was increasingly viewed as a mechanism that shielded CMP against the economic impact of the recession, rather than providing the intended energy efficiency and conservation incentive impact.<sup>32</sup>

Revenue decoupling will also result in a risk for cross-subsidization of candidates for DSM by low-use customers and by other customers who cannot obtain the direct benefits of DSM.<sup>33</sup> In addition, in the RDM version of decoupling proposed by Xcel, residential consumers would experience disproportionate rate increases if large commercial and industrial sales decline at a faster rate than residential sales, *for any reason*. In a difficult economy, for example, large industrial customers can unexpectedly drop from the system, reducing industrial load by a large amount in one year. The RDM would shift the risk of this sales loss automatically to those subject to the RDM.

In addition, the proposed RDM does not assure that all residential customers can participate equally, yet treats all residential customers as equally responsible for DSM

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<sup>29</sup> Thankfully, Xcel’s Minnesota consumers were not subjected to decoupling mechanisms in their electric rates during the great economic downturn that began in 2008.

<sup>30</sup> *Investigation of Chapter 382 Filing of Central Maine Power Company, Order*, Docket No. 90-085 (May 7, 1991).

<sup>31</sup> Exh. 310, p. 14-15.

<sup>32</sup> Exh. 310, p. 15.

<sup>33</sup> Exh. 310, p. 22.

costs.<sup>34</sup> A key problem in energy efficiency programming remains the situation of the non-participant (or the “lesser participant”).<sup>35</sup> Unless the utility costs of efficiency are less than the difference between average and marginal costs, rates will go up as efficiency drives sales lower. In such a situation, those customers who cannot participate in efficiency, (or cannot achieve savings comparable to those others can obtain savings), will pay the utility for the costs of the efficiency, but will still see their bills rise. Average bills for all customers may well go down, but most customers will not share in these reductions.<sup>36</sup> This problem is difficult to resolve because, in general, low-use customers of any class, and those who have already done as much efficiency investment as is cost-effective, cannot obtain the direct sales reductions made available to participants through utility-sponsored programs, but must still share in their costs.<sup>37</sup>

This problem is exacerbated by the funding limits on utility DSM, which as a practical matter limit the numbers of customers who can obtain the direct efficiency benefits in any one year. Commissions have typically made some accommodations by stressing low-cost and ubiquitous efficiency measures like high-efficiency lighting, for example. But not only does participation limited to this kind of measure provide a small dollar savings benefit (relative to a high-efficiency furnace, for example) it also leaves large portions of the population unable to participate.<sup>38</sup> Low-use customers are among those that are likely to be systematically excluded or underserved by traditional utility

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<sup>34</sup> Id.

<sup>35</sup> Exh. 310, p. 16.

<sup>36</sup> Id.

<sup>37</sup> Id.

<sup>38</sup> Id. at 16-17.

energy efficiency programs.<sup>39</sup> And yet these customers would be unfairly placed at risk for paying higher bills due to the proposed RDM rate surcharge adjustments.

- iii. The Company's decoupling proposal overall weakens the economic benefit of customer efficiency and conservation efforts.

Decoupling muddies price signals. To the extent that total residential utility sales decrease under the proposed RDM mechanism, rates can increase up to 5% during the next year, based solely upon the issues related to energy sales. If, as proponents envision, this reduction in sales is due to customer energy efficiency and conservation efforts, the impacted class of consumers will be sent a price signal that weakens the reward for engaging in such efforts. Regardless of whether an individual may still reduce their overall energy bill, (provided that they can out-perform their neighbors' average efficiency and conservations efforts), their personal economic rewards will nonetheless be smaller than would be the case without decoupling.

A proponent of decoupling, Clean Energy Intervenor ("CEI") witness Ralph Cavanagh, rebuts this concern by stating that any individual customer who is concerned about RDM surcharges may simply offset typical<sup>40</sup> surcharges of 1% to 2% with their own efficiency gains.<sup>41</sup> However, his statement is not true for most low-use customers nor is it true for high-use customers with special needs.<sup>42</sup> In support for his statement, Mr. Cavanagh refers to the websites of the American Council for an Energy Efficient Economy ("ACEEE") and the Regulatory Assistance Project ("RAP"), but neither site

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<sup>39</sup> Id. at 17.

<sup>40</sup> 1% - 2% is his own hopeful estimation of what is "typical". Nonetheless, CEI has not yet supported recommendations for a hard cap of 2% on any RDM rate adjustments.

<sup>41</sup> Cavanaugh Direct, Exh. 290, p. 9.

<sup>42</sup> Exh. 311, p. 6.

empirically addresses the concerns of customers with no or little discretionary usage.<sup>43</sup> Most low usage customers can only achieve very low levels of reduction without noticeable impacts on their lifestyle, if not to their health and safety.<sup>44</sup>

Mr. Cavanagh argues that because an individual customer's actions have no perceptible impact on RDM rate increases, then each customer still has an incentive to reduce usage to the RSM rate increase.<sup>45</sup> However, that answer merely suggests that the problem will largely go unnoticed, and does not address the very real problem. If 100% of customers reduced their usage enough to offset the increase imposed to make up for previous reductions, the RDM surcharge would go up by the lost base revenues of the utility. If the entire class reduced usage enough in one year to more than offset the RDM increase, the result would only lead to a further rate increase in the next year. A customer avoids this problem only if she is one of a small percentage of the customers who have the means and disposable usage to reduce more than the average. The great majority of customers are unable to reduce to that extent.<sup>46</sup> Those customers experience RDM rate increases while not being able to avoid them further, and without materially increasing the overall RDM usage shortfall by their activities. By definition, on a system-wide basis, reducing usage puts upward pressure on the RDM surcharge, but ironically and unfairly, those who likely put the most upward pressure on RDM charges would be the same customers whose efficiency opportunities allow them to reduce usage considerably.<sup>47</sup>

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<sup>43</sup> CEI Response to AARP 5(b); Exh. 311, pp. 6-7.

<sup>44</sup> Exh. 311, p. 8.

<sup>45</sup> CEI Response to AARP 5(b).

<sup>46</sup> Exh. 311, p. 9.

<sup>47</sup> Id.

Mr. Cavanagh states that the need to be among those who reduce usage will act as a spur to efficiency efforts.<sup>48</sup> But, in actuality, the RDM would give a customer the incentive to discourage others from reducing, while reducing her own usage.<sup>49</sup> It is a “beggar thy neighbor” proposition. Customers understand this intuitively, and it offends a basic sense of fairness. In addition, the distribution of the kWh for electricity-saving opportunities, they are concentrated in the premises of high users, and are accessible primarily by those who have the upfront copayment, can or are willing to take out a loan for the copayment, and can take the risk that the measure will not pay back, much less provide net bill savings.<sup>50</sup> Low usage customers do not enjoy these advantages; having a greater “incentive” will not change these realities for them.

The South Carolina Public Service Commission recently approved a settlement eliminating an electric weather normalization adjustment [“eNWA”] because of similar problems. The program started in 2009, decoupled rates from sales changes related to weather, but otherwise operated like the kind of decoupling mechanism proposed by Xcel in this case.<sup>51</sup> After complaints from consumers similar to the problems discussed above, and the intervention of AARP in proceedings at the South Carolina commission, a settlement proposal was approved to review the issues in a report by their Office of Regulatory Staff. That report, filed on November 2, 2013, ultimately recommended the immediate termination of the program. The South Carolina commission approved a further settlement, after the report, eliminating the decoupling mechanism.<sup>52</sup>

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<sup>48</sup> CEI Response to AARP 5(b).

<sup>49</sup> Exh. 311, pp. 9-10.

<sup>50</sup> *Id.*; Also Exh. 312, pp. 4-5.

<sup>51</sup> South Carolina Electric & Gas (SCE&G)

<sup>52</sup> Exh. 311, p. 10-11.

- iv. If the Commission determines that, despite AARP's objections and concerns, it is in the public interest to approve a decoupling proposal; AARP recommends that, accordingly, the Company's return on equity be adjusted downward.

In its recommendation for an appropriate allowed return on equity, Xcel fails to account for the reduced risk to Xcel, if its RDM proposal is adopted. Xcel's cost of capital witness, Mr. Hevert, testifies that a downward adjustment is unnecessary because there are several utility companies in both proxy groups that he uses for his Discounted Cash Flow ("DCF") estimation that already have some form of decoupling.<sup>53</sup> He states that he does not "believe that equity investors would reduce their return requirements for NSPM relative to the Electric Proxy Group or the Combination Proxy Group utilities as a result of NSPM's partial decoupling proposal."<sup>54</sup>

AARP disputes this claim. Mr. Hevert's proxy groups are not representative of utilities with the type of RDM mechanism sought by Xcel in the instant rate case. He acknowledges that, of the 28 companies in the proxy groups, only half have some form of decoupling mechanism in place.<sup>55</sup> He makes no effort to demonstrate or quantify that the decoupling proposals of his proxy group utilities have the kind of "breadth and scope" such that equity investors will not take the presence of an RDM for Xcel into account.

It is an unavoidable fact that decoupling would shift sales risk onto consumers and stabilize the company's revenues going forward. Xcel would be a less risky utility if its RDM is adopted; it is otherwise hard to explain why the utility would even care

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<sup>53</sup> Hevert Direct, Exh.27, p. 51.

<sup>54</sup> Id.

<sup>55</sup> Id.

enough to make such a proposal. Even though Xcel witness Mr. Hevert does not agree that decoupling reduces risk (at least in the way that he defines “risk”), he does admit that Xcel’s proposed RDM tariff is designed as a “revenue stability mechanism”.<sup>56</sup> Mr. Hevert further acknowledges that reducing the utility’s revenue volatility is viewed positively from an investor’s perspective.<sup>57</sup> Revenue risk is indeed a business risk. It should be self-evident to the Commission that reducing the utility’s revenue volatility would necessarily increase rate volatility for consumers, and that revenue risk would clearly be transferred from one side of the ratemaking equation to the other via decoupling. The final order issued by the Commission in this rate case should recognize this reality by only adopting the RDM if in fact the utility’s allowed return on equity is adjusted downward to match its altered risk profile.<sup>58</sup>

Mr. Cavanagh also attempts to come to the utility’s rescue on this point, arguing that decoupling should not be presumed to reduce utility risk, claiming that decoupling reduces both an upside and a downside risk.<sup>59</sup> To support this opinion, he quotes from a Brattle Group study that claims no presumption can be made that decoupling automatically lowers return on equity.<sup>60</sup> The study was premised upon the idea that only non-diversifiable risks should be evaluated when estimating the return on equity; however, this is not the only theory in finance.<sup>61</sup> The authors (Mr. Cavanagh included), further assert that “[a]doption of decoupling policies could be coincident with other

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<sup>56</sup> Transcript, Vol. 1, p. 82.

<sup>57</sup> Exh. 28, p. 50; Transcript Vol. 1, pp. 82-85.

<sup>58</sup> Exh. 310, p. 21.

<sup>59</sup> Exh. 290, p. 5.

<sup>60</sup> “The Impact of Revenue Decoupling on the Cost of Capital for Electric Utilities: An Empirical Investigation” (March 2014).

<sup>61</sup> Exh. 311, pp. 15-16.

influences that may be increasing non-diversifiable risk.”<sup>62</sup> This assertion acts as an intellectual hedge against associating lower returns with decoupling.<sup>63</sup> Lower returns could be driven by these other influences. The Brattle study method does not control for any such eventualities. Nor does the Brattle Group study consider the role of incentives or rate design in contributing to rate of return results.<sup>64</sup>

A number of public utility commissions have ordered that the allowed return on equities for utilities in their states be reduced upon the implementation of a decoupling mechanism, or they have approved settlements in which such a reduction was made. The range of these reductions has been from 10 basis points to 50 basis points.<sup>65</sup> At least four of the settlement orders incorporated a 10 basis point reduction.<sup>66</sup>

- v. If the Commission determines, despite AARP's objections and concerns, that it is in the public interest to approve a decoupling proposal, AARP recommends that several necessary consumer protection conditions be incorporated.

If the Commission ultimately determines that some form of decoupling should be adopted in this rate case in, despite the opposition of AARP and the Office of the Attorney General (“OAG”), there are several conditions and amendments proposed by AARP, OAG, and Energy Cents that should be adopted to mitigate the harm to consumers.<sup>67</sup> In fact, Minnesota law requires that if the Commission does approve a rate-decoupling program, that its criteria allow it be implemented “. . . *without adversely*

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<sup>62</sup> Exh. 290, p. 5.

<sup>63</sup> Exh. 311, pp. 16.

<sup>64</sup> *Id.*

<sup>65</sup> Exh. 310, p. 18.

<sup>66</sup> *Id.*

<sup>67</sup> See the testimony of Nancy Brockway, specifically Exh. 310, pp. 17-18; Exh. 311, pp. 19-21.



affecting utility ratepayers.”<sup>68</sup> In order to ensure that Xcel’s residential ratepayers are not adversely affected and that detrimental impacts of decoupling are sufficiently mitigated, AARP asserts that the following consumer protection conditions must be incorporated into any approved decoupling mechanism:

1. The Commission should not adopt any decoupling program absent a strong and increased commitment by the utility to provide cost-effective demand-side programs and measures. The Commission should require the utility to make a filing assuring the Commission of the specific ways in which:
  - a) Xcel will produce incremental energy savings, **beyond those called for in the triennial plan,**
  - b) performance requirements are established **directly linking any RDM ratemaking treatment to proven utility-sponsored DSM savings,** and
  - c) 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).
2. The Commission should cap the level of RDM surcharge rate increases that can occur in a 12-month period at **2% of excess revenues.** Establishing a reasonable cap level is essential, if decoupling is indeed imposed on all residential consumers. Xcel’s proposed 5% annual (soft) cap does not go nearly far enough to protect consumer expectations of reasonable, affordable, stable, and predictable energy utility rates.
3. The Commission should ensure that the cap is a **hard cap** on the deferrals of RDM rate increases, so that any RDM surcharges are not carried forward indefinitely (as would be the case with Xcel’s proposed 5% soft cap).
4. The Commission should require that the level of the cap on RDM surcharges **not be applied to the fuel and other rider revenues,** as recommended by OAG witness Nelson.
5. The Commission should limit the **frequency** of RDM rate adjustments to no more than an annual basis.
6. The Commission should **adjust Xcel’s allowable return on equity (ROE)** downward by 10-50 basis points within the zone of reasonableness (as discussed in the previous subsection of this brief) in order to reflect the reduced risk to the utility from enhanced revenue stability.

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<sup>68</sup> Minnesota Stat. Section 216B.2412.2

7. The Commission should **prevent cross-subsidization** due to RDM surcharges imposed upon low-use residential customers, and probing Xcel further as to why other larger customer classes were not included in their proposed RDM.

8. The Commission should apply any RDM surcharges and surcredits **in a manner that benefits those customers who use the least energy**. Consistent with this recommendation, the Commission should consider Energy Cents witness Mr. Colton's recommendation that in approving a per-kWh charge to collect the RDM shortfall, the Commission should calculate the shortfall 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.<sup>69</sup>

9. The Commission should **review the basis for the weather normalization component** in the proposed RDM. (The evidence that customers would have paid \$70 million less in surcharges over the past five years with "full decoupling" as opposed to "partial decoupling" warrants this review).<sup>70</sup>

10. The Commission should establish any RDM as only a **pilot program** and require regular rate case review of Xcel's revenue requirement to ensure that all ratemaking components are aligned.

All of these recommended conditions should be considered necessary conditions, if the Commission ultimately adopts a decoupling mechanism, despite AARP's primary recommendation that decoupling should be rejected altogether.

- b. AARP supports the CCOSS and revenue apportionment recommendations of the OAG to ensure that all customer classes share equally in any overall electric rate increase.

Residential consumers of Xcel have borne a larger share of previous electric rate increases granted to Xcel over the past seven years, compared to the generally lower rate changes ordered for larger commercial and industrial customers. The OAG's proposed alterations to Xcel's class cost of service study ("CCOSS") suggest that the

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<sup>69</sup> Exh. 234.

<sup>70</sup> Ron Nelson Direct, Exh. 325, p. 56.

rates for residential customers are not unreasonably out of sync with the costs necessary to serve that class.<sup>71</sup>

Furthermore, as the OAG points out, a CCROSS is an imprecise model with no measurement for error, and therefore it should not be used as an absolute metric for rates.<sup>72</sup> It is important that non-cost factors (such as stability, predictability, equity, affordability, and gradualism) also be considered in setting rate design. OAG witness Ron Nelson's proposed revenue apportionment for 2014 and 2015 would retain the current revenue apportionment between the residential class and the other customer classes.<sup>73</sup> As such, residential rates overall should not increase above the overall revenue requirement increase percentage ordered in this case.

- c. AARP recommends that the residential customer charges remain at their current levels. Company's proposal to increase the residential customer charges would place an undue burden on low-usage customers, while reducing the value of any conservation efforts undertaken by residential consumers.

Xcel proposes to increase the residential customer charge from current monthly levels. The largest subset of residential customers, who are served under the tariff classification of "Residential Standard – Overhead", would experience a 15.6% increase in the fixed customer charge portion of their monthly bill (an increase from \$8.00 to 9.25).<sup>74</sup> The weighted average of all residential customer charge increase proposals is

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<sup>71</sup> See Ron Nelson Direct, Exh. 325, p. 32, Tables 5 and 6.

<sup>72</sup> *Id.* at 35-36.

<sup>73</sup> *Id.* at 36-38, Tables 9 and 10.

<sup>74</sup> Huso Direct, Exh. 105, Table 8.

14.3%.<sup>75</sup> AARP opposes any proposal to raise Xcel's residential customer charges, in order to avoid placing an undue burden on low-use customers.<sup>76</sup>

The customer charges of the magnitude proposed by Xcel would place a heavy burden on low-use customers, and make service less affordable for them.<sup>77</sup> Raising customer charges translates to a higher percentage increase for low-use customers on the total bill, than for high-use customers. At the same time, higher use customers would only pay a modest additional amount in their energy charges towards fixed customer-related costs.<sup>78</sup>

Company witness Mr. Huso expresses concern for high energy users, but overstates the problems that maintaining the present customer charge would present for high-use customers.<sup>79</sup> He argues that low-use customers enjoy a lower bound on their charges for energy, but that high-use customers have no upside limit on the amount of their electricity charges.<sup>80</sup> However, high-use customers do place more demands on the system than low-use customers, and have control over their usage at such high levels.<sup>81</sup> Bill frequency analysis shows that the vast majority of electric space heat customers have relatively modest usage.<sup>82</sup> As can be seen on page 3 of AARP witness Brockway's Schedules NB-2, a small cohort (less than 10%) of electric space heat customers have usage over 2500 kWh.<sup>83</sup> The extraordinary situation of extremely-high-

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<sup>75</sup> Exh. 310, p. 25.

<sup>76</sup> Exh. 310, p. 33.

<sup>77</sup> *Id.*

<sup>78</sup> *Id.*

<sup>79</sup> Exh. 105 at 16.

<sup>80</sup> *Id.*

<sup>81</sup> Exh. 310, pp. 25-26.

<sup>82</sup> Xcel Response to AARP 0022; Exh. 310, Schedule NB-2.

<sup>83</sup> Exh. 310, Attachment A (AARP Information Request 22).

use residential customers should not determine policy for the vast majority of customers.

Raising the customer charge necessarily involves lowering the volumetric components of rates. Mr. Huso agrees that including at least a portion of customer costs in the customer charge “does provide a conservation incentive through higher energy charges.”<sup>84</sup> He goes on to agree that this can be a reasonable and appropriate rate design policy decision, but argues that high-use customers already have a sufficient incentive to be efficient.<sup>85</sup> He presents no data supporting this proposition that higher unit rates will be ineffective to incent lower usage among high-use customers.

It is important to recognize that the economic pressures and opportunities for low-use and high-use customers are different. For evidence of this reality, see the KEMA report, entitled “Xcel Energy Minnesota: DSM Market Potential Assessment”, Final Report, Volume I. This report analyzes the potential for safe usage reduction by residential customers, and the end uses the report targets for DSM attention disproportionately appear in higher-usage households. Also, in their analysis, KEMA modeled three levels of effort for behavioral programs: (1) those that target only the highest energy users; (2) those that target the high and medium energy users; and (3) those that target all residential customers. Not surprisingly, the efforts that targeted only the highest energy users had the best benefit/cost ratios, and provided net benefits only slightly lower than programs targeting a wider range of households.<sup>86</sup>

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<sup>84</sup> Exh. 105 at 16.

<sup>85</sup> Id.

<sup>86</sup> Ibid. Table 1-4 Achievable Potentials for Electric Behavioral Conservation (2011-2020).

Mr. Huso acknowledges that lower customer charges benefit most low-income consumers.<sup>87</sup> He testifies that the number of low-income customers benefiting from a lower customer charge (which he calls a “below cost” charge) is greater than the number of low-income customers whose bills are increased by the recovery of some customer charges on volumetric rates. As Mr. Huso’s Table 11 shows, more than 60% of LIHEAP recipients will benefit if customer charges are not increased.<sup>88</sup> In fact, regardless of income level, the bulk of residential customers have usage in the lower range of usage blocks (50 kWh blocks, 0 – over 2500 kWh per month).<sup>89</sup> The number of residential customers using higher amounts of electricity tails off as the usage blocks get higher. This is true for all residential customers, and also for standard residential customers and electric space heat customers.<sup>90</sup>

Generally speaking, elderly customers in Minnesota also use less than the average customer. On average, customers in the East North Central Census region use 10,719 kWh per year, but households headed by a person 65 or older use considerably less power on average.<sup>91</sup> Households headed by a person 65 years or older use on average 9,135 kWh per year, or about 85% of the usage of all households in the region.<sup>92</sup> The ratio of usage by households headed by a person 65 years and older to that of households headed by a person less than 65 years old is roughly 80%.<sup>93</sup>

Given this demographic evidence, the Commission should retain the current customer charges, in order to maintain the health and safety of low-use customers, to

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<sup>87</sup> Exh. 105, p. 18.

<sup>88</sup> *Id.*

<sup>89</sup> Exh. 310, p. 29, Schedule NB-3.

<sup>90</sup> *Id.*

<sup>91</sup> *Id.*

<sup>92</sup> Exh. 30, pp. 29-30.

<sup>93</sup> Exh. 310, p. 30.

promote affordability, and to send the appropriate conservation incentives to high-use customers.

IV. CONCLUSION

AARP respectfully requests that the Commission issue its Final Order in this rate case proceeding consistent with the arguments contain herein.

Respectfully submitted,

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