BEFORE THE MINNESOTA OFFICE OF ADMINISTRATIVE HEARINGS
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FOR THE MINNESOTA PUBLIC UTILITIES COMMISSION
Suite 350
121 Seventh Place East
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MPUC 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 Services in Minnesota

OAH Docket No. 68-2500-31182

REPLY BRIEF OF THE SUBURBAN RATE AUTHORITY AND PROPOSED FINDINGS AND CONCLUSIONS

REPLY

A. The OAG Objections to the Stipulation are not Supported.

In its Initial Brief, the Office of the Attorney General ("OAG") cannot support its assertion that the "record in this case demonstrates that the IBR structure could have severe, negative consequences for certain ratepayers . . ."[1] The OAG relies entirely on the wholly distinguishable CenterPoint Energy IBR rate design to support its use of "severe" and "substantially harm" in referring to ratepayers under a potential IBR plan. It gives no examples of how a ratepayer could be severely harmed if the Commission adopts the Stipulation. The OAG's puzzling and shrill call for premature rejection of the IBR should be rejected.

In the CenterPoint gas IBR workgroup, the SRA joined the OAG in criticizing the gas IBR program. The SRA strongly disagrees with the OAG's use of warmed over objections to the gas IBR to oppose the Stipulation, however. As discussed in the SRA's Initial Brief, there are

[1] OAG Br. at 72.

material distinctions between CenterPoint's gas IBR and the Stipulation—the true comparison to make here.[2] One of several significant differences is that the Clean Energy Intervenors-sponsored IBR fully exempts space heating customers of the Company and virtually eliminates the heating component that lay at the heart of the problems with the gas IBR plan. The OAG fails even to take note of such a material distinction in equating the gas IBR to the Stipulation, which only provides for review and possible implementation of the IBR for Company residential electricity customers.

Unlike the CenterPoint gas IBR, there is a pre-implementation stakeholder review process built into the Stipulation that will address issues of legitimate concern such as electrical use required by certain customers with medical conditions and the issue of low income-high use customers.[3] For that reason it is surprising to read such a premature and strong negative reaction from the OAG to a conservation plan that is subject to further review. The OAG is obviously aware of the strong legislative interest in conservation.[4] Yet the OAG argues that a potential conservation rate design must be summarily rejected, before a stakeholder review process, because certain customers might be "severely" harmed in unspecified ways. This is asserted despite the fact that the IBR, if adopted, will clearly assist low income-low use customers in lowering electricity costs, as well as give incentive to customers who may need education on electricity use to become more efficient. To reject such a program because of potential issues to be addressed regarding a few customers precludes any type of rate incentive-based conservation program. The OAG's opposition, at this stage, seems to say that if a few customers may pay a marginally higher electricity rate, even when a substantial number of customers may benefit

[2] SRA Initial Br. at 5-7.
[3] Ex. 135; OAG Br. at 73-74.
[4] SRA Initial Brief, fn. 27.

from such a rate design, the plan should not be implemented or even reviewed. Such a standard is tantamount to dismissing any IBR as a means of reducing electricity use. The OAG's reliance on the CenterPoint gas IBR to make that apparent point is wholly insufficient.

The SRA sees significant potential benefit to many Company residential customers if the Stipulation is adopted. The Stipulation is in the public interest and is a prudent means of vetting an IBR materially distinguishable from the CenterPoint gas IBR program. The SRA urges the ALJ to reject the OAG's position as unfounded and premature.

B. The Department does not Support its Proposed 3.1% Increase in the Lighting Class 2015 Rates.

In defending its proposal to increase 2015 Lighting class rates by 3.1%, the Department must fit its proposal within its own well-established policy of requiring a reasonable cost basis for class rate design differences.[5] It does not and cannot do so.

The Department justifies a rate increase for Lighting customers in 2015 by articulating an odd contradiction that is not consistent with the above policy. The Department notes that it still moves Lighting rates "closer to cost" by its 3.1% increase in 2015 because 2014 Lighting class proposed rates would be at 103.6% of service cost to Lighting customers and 2015 rates would only be at 102.6% of the CCOSS cost of service—with the Department's increase. Lighting customers should be grateful, after all, that the 3.1% increase is still less of an overpayment than they made in 2014.

What the Department doesn't mention is that if it concurred with the Company and proposed no increase to 2015 Lighting class rates, customer rates would move *closer* to cost, but still be above cost. The Department ignores that its 2015 proposal inevitably moves Lighting

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[5] Department Initial Brief at 282 ". . . there must be a cost basis for any differences [in rates among classes] to be deemed reasonable . . ." Ex. 404 at 2.

class rates *away* from cost of service, not closer.

The Department's proposal is contrary to its own class rate cost justification policy. It offers no countervailing policy justification for this 3.1% proposed increase. Its bare justification is that with the increase, rates aren't as bad as 2014 rates when it comes to Lighting customers paying rates in excess of the cost of service. That is no justification at all. The Department's proposal should be rejected.

PROPOSED FINDINGS AND CONCLUSIONS

1. The inclining block rate proposal ("IBR") for residential customers is consistent with legislative conservation goals. Evidence in the record supports the conclusion that the IBR plan may result in reduced electricity usage by residential customers and lower electricity bills for many, and that it may assist many low income customers in lowering utility bills.
2. The Stipulation provides for a review of the IBR or other potential alternative rate design submitted by the Company prior to implementation and is in the public interest because the review process may result in a fair and equitable conservation rate design.
3. The evidence in the record sufficiently supports Commission adoption of a decoupling program on a pilot basis. The results of a decoupling program should be carefully evaluated to identify tangible evidence that the purpose of decoupling is being fulfilled: the removal of the Company's disincentive to promote conservation programs by allowing for recovery of revenues lost due to successful conservation programs.
4. If the Commission adopts a decoupling program, it is not appropriate to increase the residential customer charge because the revenue recovery mechanism in decoupling substantially mitigates the Company's risk of under recovery.

5. The Company's rate increase proposal for the Lighting Class 2014 and 2015 is reasonable. The Departments' proposal of a 3.1% increase for the Lighting Class for 2015 is contrary to the policy of moving rates towards cost of service and is not based on any articulated public policy consideration that overrides such a policy.

Respectfully submitted,

Dated: October 14, 2014

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